
SOLVING THE SHKRELI PROBLEM • EARN 30% OFF LAWSUITS
FEBRUARY 8 • 2016 EDITION
Forbes
AMERICA'S
BEST SMALL
COMPANIES
25 LITTLE GIANTS
ONCE AND FUTURE OIL KING
TREVOR REES-JONES
"I'M LICKING MY CHOPS."
7 YEARS
7 DEALS
$7 BILLION
NO ONE HAS RIDDEN THE ENERGY BOOM AND BUST BETTER THAN THIS SECRETIVE TEXAS WILDCATTER.
AND NOW HE'S BUYING AGAIN.

Forbes

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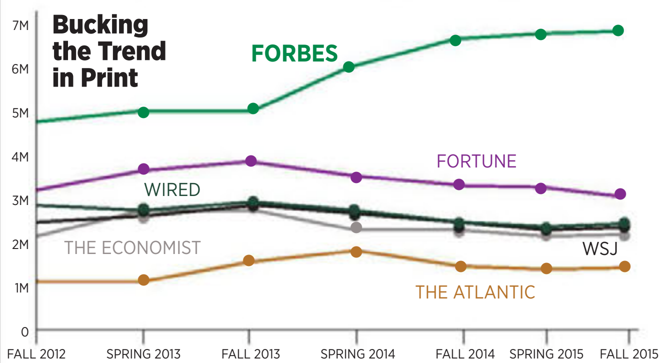
INSIDE SCOOP

Our Storied Brand Bucks the Trend

BY LEWIS D'VORKIN

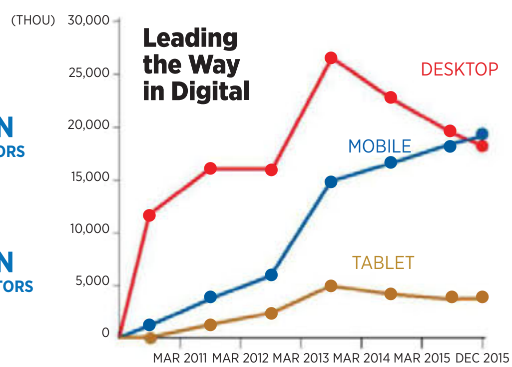
THE REINVENTION OF FORBES is well into its fifth year. It's been exciting—and full of challenges, many we've yet to figure out, particularly in the digital space. With all that, we've had some successes that make us feel we're on the right track. Five of our most read issues ever came in 2015, as measured by MRI. Our nearly 70 million Forbes.com visitors in November, as measured by Google Analytics, compares with 18 million in 2010. In fact, FORBES magazine readership is no doubt up because our unique digital-content model extended a 98-year-old storied brand to new audiences across the social Web. The digital chart below shows the next great hurdle to overcome: figuring out what it means to be a mobile publishing company.

Oops, I almost forgot. Thanks, Donald.



68.1 MILLION GLOBAL VISITORS

43 MILLION DOMESTIC VISITORS



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"With all thy getting, get understanding"

GOLD AND HEALTH CARE MUSTS FOR NEXT GOP DEBATE

BY STEVE FORBES, EDITOR-IN-CHIEF

TWO BIG ISSUES need to be addressed at the Jan. 28 GOP presidential debate, the last such joust before the Iowa caucuses.

One, of course, is health care, which was barely mentioned at the mid-January debate. All the candidates want to repeal ObamaCare. But what, specifically, do they want to replace it with?

The second issue is the Federal Reserve's economic-growth-killing policies. Unstable currencies dampen productive investment. They're like watches and clocks that no longer tell accurate time. Fixed weights and measures are crucial for a functioning marketplace. Money measures value the way scales measure weight. The fluctuating dollar and the suppression of interest rates—the price of borrowing money—have hurt lending to small and new businesses, the biggest job creators.

The dollar had been linked to gold for 180 years, from 1791 to 1971. Gold, in this case, is like a ruler. It keeps the greenback stable in value. Short of a gold standard, there are sensible reforms that could enormously help the economy.

Peace for Two War-Torn States

It's not too soon to start thinking about what approach the U.S. should take with two troubled parts of the world, Ukraine and Afghanistan, when we get a new President next January. A look at history and what was done regarding Belgium and Austria could provide the framework to guide our next Secretary of State.

Dealing with Afghanistan will be extremely difficult. A meaningful commitment of additional U.S. ground forces may be necessary for a period of time to prevent extremist forces from taking over the country.

But we shouldn't overlook trying to achieve a more lasting solution: removing the country from the cockpit of power politics. India, China, Pakistan and Iran are among the countries bordering this benighted land. Each backs factions in Afghanistan to promote its interests against its enemies. The goal should be to create a truly neutral Afghan state, in which interested powers agree to stay out and not compete for dominance. The model for this is Belgium, one of what are known in western Europe as Low Countries, countries whose lands are flat and an irresistible invasion route to would-be conquerors. Britain was particularly concerned about this real estate because it provided ideal shores from which to invade the Sceptred Isle.

In 1830 Catholic Belgium broke away from Protestant Holland. To make sure France (and then Germany) didn't try to dominate this new state, British diplomats engineered a multination treaty guaranteeing Belgium's neutrality and keeping it out of big-power competition. Everyone agreed: Hands off! The agreement stood for nearly three-quarters of a century, until Germany decided to risk war with Britain in 1914 by invading Belgium as a convenient way to move against France. Germany's chancellor, Theobald von Bethmann Hollweg, contemptuously referred to the treaty as "a scrap of paper." British public opinion was outraged; the flagrant violation of Belgium's neutrality pushed a divided government to declare war on Germany.

It would be difficult, but today's contenders for Afghanistan might well be persuaded that none of them will be able to make that country a client state and that it would be in everyone's best interests were they to treat it in the same manner that, for several decades, Europe's powers treated Belgium.

Essential to such an outcome, of course, is a purposeful and *powerful* U.S., one that's once again seen to be a vigorous and innovative country commanding respect, not the pitiful giant President Obama has made us.

The model for Ukraine is Austria. After World War II the victorious Allied powers—the U.S., the Soviet Union, Britain and France—divided Austria and its capital, Vienna, into four occupied zones, much like what had been done in Ger-

many. But with the onset of the Cold War, Moscow didn't want Austria to become an American ally, and the U.S. didn't want Austria to become a Soviet satellite, as had happened to countries in eastern and central Europe. In 1955, for several reasons, Washington and Moscow came to an agreement: Austria would be removed from U.S.-Soviet competition. Diplomatically, it would be absolutely neutral. No military forces from either country would be stationed there, nor would Austria be a part of NATO or the Warsaw Pact. Politically, Austria had a de facto system in which the two major parties shared power, whatever the election results. Consensus was the key.

The arrangement worked. Austria did eventually become part of the EU, but only once the Cold War was winding down and Moscow raised no objections.

We should strive for a similar arrangement in Ukraine: no NATO, no EU, no Moscow-style trade equivalent of the Warsaw Pact. Russia would pull the plug on its forces there, and we wouldn't arm or train Ukrainian military forces. Ukraine, of course, could pursue trade with everyone but not membership in any groups like the EU.

Crimea? I outlined a possible solution on Forbes.com in March 2014, giving that area a virtual independence while allowing Russia and Ukraine to claim they are sovereign.

Would Vladimir Putin go along with this? He might be tempted to if the U.S. regained the stature it enjoyed under President Reagan and if he saw there would be real costs in terms of new sanctions if he didn't. Putin has to be convinced that we don't want Ukraine as a part of NATO or the EU and that we won't try to engineer a partitioning of Ukraine, with its western portion politically and militarily integrated with the West.

Events may make such approaches with Afghanistan and Ukraine impossible to achieve, but they should certainly be pursued.

The Danish Girl, which has been nominated for four Academy Awards (and was produced by my sister-in-law Anne Harrison), is one of those movies that hit you hard and then stay with you long after the lights come on. This true story concerns a noted Danish landscape painter in the mid-1920s, Einar Wegener, who undergoes one of the first sex-change surgeries. Tastefully, sensitively, the film portrays how Wegener discovers that though he has the body of a man his brain tells him he's a woman.

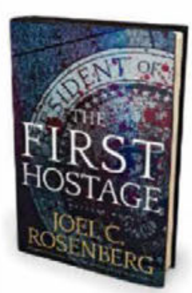
The transformation begins by accident. Wegener's wife, Gerda, is a portrait painter, and when her subject, a ballerina, fails to show up for a sitting, she playfully coaxes Einar into putting on stockings and ballet shoes and holding the dance dress in position so that she can still make progress on her project. The incident sets off in Wegener what becomes an emotional earthquake that has him shedding his former identity and adopting a completely new one as Lili Elbe.

Lili ultimately decides to undergo two pioneering surgeries, the last one leading to her death. What's jarring—and what the movie powerfully portrays—is the medical profession's reaction to Lili's realization of her condition. Most doctors didn't know what to make of this and reacted by making more recognized diagnoses, such as homosexuality and schizophrenia, and prescribing horrific treatment "cures."

The acting is superb, the cinematography dazzling and the script unerring. The pace of the story never flags. The film avoids cheap emotional tricks, which is especially noteworthy and gratifying, given the recent overwhelming and often tawdry coverage of Bruce Jenner's transformation into Caitlyn.

The First Hostage—by Joel Rosenberg (Tyndale House Publishers, $26.99). If you're not already a fan of Joel Rosenberg, whose books—fiction and nonfiction—have sold more than 3 million copies worldwide, you'll be one once you've read this latest novel. It combines Joel's ability to spin stunning, spine-tingling, steroid-paced tales with his impressively deep knowledge of the Middle East.

The First Hostage is the second in a new series of action thrillers whose main character is *New York Times* journalist J.B. Collins. Although this is an exciting stand-alone read, you might first want to dive into its precursor, *The Third Target*. These novels involve ISIS terrorist attacks; espionage, with a possible highly placed, pro-ISIS American mole; weapons of mass destruction; and intrigue galore.



This book begins where the first left off: at a meeting in Amman, Jordan, where the king of Jordan, the U.S. President, Israel's prime minister and the head of the Palestinian Authority are about to sign a historic peace agreement. ISIS launches a massive attack, and in the confusion the President goes missing. Collins is there covering the event but before long finds himself suspected of being a mole. There are many mind-boggling twists and plenty of suspense before the book ends.

Joel Rosenberg, who in a previous life served as the director of research for my 2000 presidential campaign, knows his subject well. An evangelical Christian who lives in Israel with his wife and children, he has addressed audiences around the world; been interviewed for his insightful analyses on hundreds of TV and radio programs; and advised world leaders, including Prime Minister Benjamin Netanyahu. Joel knows too much to ever share President Obama's delusion that what's unfolding in the Middle East isn't much of a threat to the West.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RETAIL AND E-COMMERCE
CAROLINE WALERUD 25, SWEDEN
Cofounder **VOLUMENTAL**
If the shoe doesn't fit, create it: Walerud has developed 3-D scanning technology that uses depth-sensing cameras to create a perfect pair of kicks—or find them in a store's inventory. Volumental has raised $5 million so far, and via its offshoot business, My Very Own, it has also adapted its technology for the eyewear market.

INDUSTRY
RORY O'SULLIVAN
29, IRELAND
Cofounder
ENERGY PROCESS DEVELOPMENTS
O'Sullivan, Energy Process' lead engineer, is working to develop safer, less expensive nuclear power plants. He has partnered with British clean-power company Moltex Energy, as well as a number of industry and governmental organizations in Asia, to help make cheap, safe nuclear energy a reality.

TECHNOLOGY
CYRIELLE CALLOT 28, FRANCE
Head of growth **BLABLACAR**
Callot is in charge of global expansion for BlaBlaCar, the fast-growing ride-share service that connects passengers to drivers who have empty seats, to defray the cost of longer auto travel. Founded in France, it now operates in Russia, Turkey and Ukraine; the rest of Europe, plus areas of the Middle East and Africa, are next on the growth chart.

CAROLINE WALERUD WEARS AN EMBROIDERED CADY DRESS BY PETER PILOTTO ($2,100) AND LEATHER HEELS BY GIUSEPPE ZANOTTI (PRICE UPON REQUEST). **RORY O'SULLIVAN** WEARS A DOUBLE-BREASTED WOOL SUIT BY HARDY AMIES ($1,295), A COTTON SHIRT BY BERLUTI ($570) AND SUEDE SNEAKERS BY JIMMY CHOO ($695). **CYRIELLE CALLOT** WEARS A CREPE SAUNA COAT BY SPORTMAX ($1,425) AND LEATHER HOLLY SANDALS BY JIMMY CHOO ($995).

CREATIVE STYLE DIRECTOR: **JOSEPH DEACETIS**
STYLE ASSOCIATE: **JUAN BENSON**
HAIR & MAKEUP: **CAROL GREENFIELD, DENISE KUM**

For five years the FORBES 30 Under 30 list has revealed America's ascendant young superstars in every major field. But precocious entrepreneurs and game changers can be found across the world. Hence, the debut of our first 30 Under 30 Europe—30 superstars in 10 categories. In London we gathered a handful of the best of the best for a peek at the future (and present) of innovation in a continent that's increasingly receptive to it. **PAGE 16**

Photographed by Levon Biss for FORBES at the Mondrian London

SOCIAL ENTREPRENEURS
JOSÉPHINE GOUBE 27, FRANCE
Director of partnership
MIGREAT
Goube wants to ease the world's refugee crisis. As one of the first employees at Migreat, which was founded in 2012, she has helped build an online platform that gives refugees, migrants and other displaced people an easy way to handle visa applications and find services once they make it to their new homes.

SCIENCE & HEALTH CARE
CÉSAR VELASCO MUÑOZ
29, SPAIN
Epidemiologist
WORLD HEALTH ORGANIZATION
Velasco Muñoz served on the frontlines of the World Health Organization's response to ebola—tracking the disease, training gravediggers and preparing guides on protective equipment for the European Centers for Disease Control. With the crisis abated, the Harvard-educated Spaniard is now researching vaccines in order to prevent a similar disaster in the years ahead.

30 UNDER 30

Europe's Fresh Faces

NEW THINGS ARE springing from the Old World. Our first-ever 30 Under 30 Europe list builds on our efforts to spotlight the youthful elite (the American honor roll is now in its fifth year) and spans ten categories—finance, industry, entertainment, public policy and more. Our reporters unearthed thousands of names before handing off a shortlist of finalists to all-star panels of judges who made the final choices.

This small group of tomorrow's brightest stars convened at London's Mondrian hotel last month—a conclave that included a Michelin-starred chef, a rising hip-hop artist, an inventor, a venture capitalist—and a Pirate. To see the full list, please go to forbes.com/30-under-30-europe-2016.

MEDIA
ERNST-JAN PFAUTH
29, THE NETHERLANDS
Cofounder/Publisher
DE CORRESPONDENT
In 2013 the journalist crowdfunded $1.7 million to launch *De Correspondent,* a Dutch online publication that delivers ad-free, in-depth journalism to more than 40,000 subscribers, who pay $65 monthly. Formerly an editor at the well-respected Dutch daily *NRC Handelsblad* and editor-in-chief of tech news site The Next Web, Pfauth has written two books about blogging.

ENTERTAINMENT
LITTLE SIMZ 21, U.K.
Musician
AGE 101
Hip-hop superstar Kendrick Lamar says Little Simz "might just be the illest doing it right now." It's hard to disagree: Her debut album, *A Curious Tale of Trials + Persons,* came out last year; the song "Dead Body" (a meditation on humanity's inherent imperfections) peaked at No. 10 on the *Billboard* + Twitter Emerging Artists chart.

Photographed by Levon Biss for FORBES at the Mondrian London

RETAIL & E-COMMERCE
AMBER ATHERTON 24, U.K.
Founder
MY FLASH TRASH
Hong Kong–born Atherton modeled as a teenager and sold CDs and books at boarding school before launching the online jewelry marketplace My Flash Trash from her dorm room in 2007. She has her own line, too: fun charms and bold accessories sold in Topshop's London flagship and other trendy boutiques.

POLICY
JULIA REDA 29, Germany
Member of the European Parliament
PIRATE PARTY
As a representative of the Pirate Party—a loosely aligned worldwide coalition of activists who want more-transparent governments and changes to intellectual property laws—Reda is pushing the European Parliament to reform its copyright statutes so they're easier to understand and it's simpler to exchange ideas across borders.

FINANCE
OPHELIA BROWN 29, U.K.
Principal
INDEX VENTURES
Talk about persistent: When Typeform, a Spanish startup that makes simple online documents, raised its Series A round last year, Brown camped out in its Barcelona offices for two weeks until the deal got done with her firm as the lead investor. She has also sourced Index's investments in Osper, Big Health and Marvel.

THE ARTS
TOM SELLERS 28, U.K.
Chef and Owner
RESTAURANT STORY
After learning to cook at ultra-elite eateries such as Manhattan's Per Se and Copenhagen's Noma, Sellers opened Michelin-starred Restaurant Story in London in 2013 and, a year later, the Lickfold Inn in West Sussex. His success has him contemplating international expansion—and has given his 15-month-old Maltese, Daphne, a taste for foie gras and venison, not kibble.

TECHNOLOGY
URSKA SRSEN 26, SLOVENIA
Cofounder
BELLABEAT
A sculptor by training, Srsen designs and markets wearable technology you actually want to wear. Her female-focused company makes smart jewelry that tracks stress, activity—even menstrual cycles. The Y Combinator graduate employs 60 people and has offices in San Francisco, Shenzhen and Zagreb, Croatia.

INDUSTRY
CORNEL AMARIEI 22, ROMANIA
Founder
LUMEN
The inventor, author and electrical engineer has built Lumen, a device that uses a 3-D scanner and vibrating sensors to help the blind get around on their own. Amariei is also a research-and-development engineer at Germany's Continental Automotive, a maker of chassis, power trains and brakes for Daimler, Ford and Volkswagen. At Continental he leads sensor, smart-connectivity and autonomous-driving innovation.

THE 30 UNDER 30 EUROPE LIST WAS EDITED BY STEVEN BERTONI AND MICHELA TINDERA.
REPORTED BY MARK BEECH, ANDRÉS CALA, EDWIN CARTLIDGE, DIANE DANIEL, SARAH HEDGECOCK, DAVID KROLL, CLARE O'CONNOR, PARMY OLSON, NATALIE ROBEHMED, LEONARD SCHOENBERGER, EMILY WILLINGHAM AND NATHANIA ZEVI.

ERNST-JAN PFAUTH WEARS A JERSEY BOMBER JACKET ($350) AND COTTON-RAYON KNIT SHIRT ($295) BY HARDY AMIES, WOOL AND MOHAIR TROUSERS BY VALENTINO ($571) AND BLACK LEATHER BOOTS BY GRENSON (PRICE UPON REQUEST); **JOSÉPHINE GOUBE** WEARS A CADY DRESS ($1,345) BY PETER PILOTTO; **CÉSAR VELASCO MUÑOZ** WEARS A COTTON POLO BY TOM FORD ($770), TWILL TROUSERS BY CALVIN KLEIN ($170), COTTON SOCKS BY CALZEDONIA AND LEATHER SHOES BY DOLCE & GABBANA (PRICE UPON REQUEST); **LITTLE SIMZ** WEARS A COTTON SHIRT WITH CRYSTAL DETAILING BY MARKUS LUPFER (PRICE UPON REQUEST) AND WOOL TROUSERS BY PAUL SMITH ($375); **TOM SELLERS** WEARS A WOOL AND SUEDE JACKET BY TOM FORD ($2,500), KNIT SHIRT BY ZADIG & VOLTAIRE ($185), FLORAL TROUSERS BY DOLCE & GABBANA (PRICE UPON REQUEST) AND VACHETTA LEATHER SHOES BY JIMMY CHOO ($750); **AMBER ATHERTON** WEARS A COTTON AND WOOL DRESS WITH PYTHON DETAIL ($4,600) BY FENDI AND A COTTON TOP BY J. BRAND ($320); **URSKA SRSEN** WEARS A JERSEY STANTON DRESS BY FINERY LONDON ($70) AND LEATHER SANDALS BY GIUSEPPE ZANOTTI (PRICE UPON REQUEST); **JULIA REDA** WEARS A COTTON SHIRT BY PAUL SMITH ($465); **OPHELIA BROWN** WEARS A VISCOSE TOP BY SPORTMAX ($545), KNIT LITO SKIRT BY PETER PILOTTO ($1,380) AND STUDDED MULES BY GIUSEPPE ZANOTTI (PRICE UPON REQUEST); **CORNEL AMARIEI** WEARS A COTTON SPORT JACKET BY HARDY AMIES ($238), COTTON SHIRT ($295) AND WOOL TROUSERS ($320) BY PAUL SMITH AND SUEDE MONK-STRAP SHOES WITH RUBBER SOLES BY GRENSON X HARDY AMIES ($650).

CREATIVE STYLE DIRECTOR: **JOSEPH DEACETIS;** STYLE ASSOCIATE: **JUAN BENSON;** HAIR & MAKEUP: **CAROL GREENFIELD, DENISE KUM**

LeaderBoard

NEW BILLIONAIRE

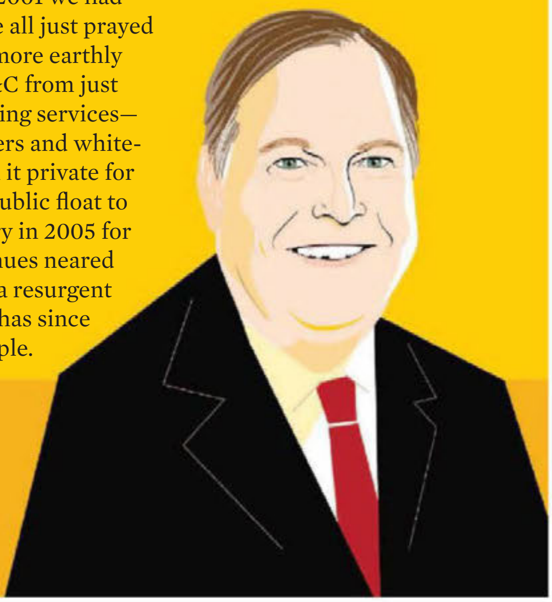
Software Survivor

After almost getting crushed by the dot-com bubble, fintech pioneer Bill Stone has staged an impressive comeback.

"YOU HAVE TO have an idea that has a chance to work, and then you can't give up," says Bill Stone. The man knows the value of doggedness: His 30-year-old SS&C, a Windsor, Conn.-based maker of financial management software, nearly perished 15 years ago but has had a remarkable resurrection. With its shares near their alltime high (driven up by record revenue of almost $770 million), Stone, 60, has a $1.1 billion fortune, most of it from his 20% stake in SS&C. "I was passionate about getting rich," he says.

After founding SS&C with $20,000 saved from his job as a KPMG accountant in 1986, he guided it to an IPO ten years later—forging ahead into financial tech decades before today's gold rush. In the 1990s SS&C's software became a top tool for asset managers, bankers and insurers, enabling them to manage their books electronically. By 2000 Stone, the former captain of his Evansville, Ind. high school football team, had pushed SS&C to annual sales of $60 million.

Then the party ended. The dot-com bubble burst, battering tech stocks—even profitable ones like SS&C. "We had 610 [employees] in June 1999. By December 2001 we had 250." His next move? "We all just prayed very hard." He also took more earthly measures, expanding SS&C from just licensed software to offering services—such as its own data centers and white-label programs—and took it private for a while, selling the 70% public float to a Carlyle Group subsidiary in 2005 for nearly $1 billion. As revenues neared $300 million, Stone took a resurgent SS&C public in 2010 and has since watched its stock quadruple.



SCORECARD

Rupert Murdoch +FIANCÉE

NET WORTH: $11.2 BILLION

Thrice-divorced media mogul gets engaged again—this time to Mick Jagger's ex, Jerry Hall.

RICHEST BY STATE

Nevada

POPULATION:
2.8 MILLION

2014 GROSS STATE PRODUCT:
$133 BILLION (1% GROWTH)

GSP PER CAPITA:
$46,792
(RANKS NO. 35 NATIONWIDE)

RICHEST: **SHELDON ADELSON**
$21.9 BILLION
(NO. 15 ON THE FORBES 400)

MANY POWERFUL PEOPLE like to see themselves in the newspaper. Others like to *own* the paper. Sheldon Adelson is one of the latter. But his oddly secret—er, discreet—$140 million purchase of Nevada's largest daily, the *Las Vegas Review-Journal,* certainly got his name in headlines, too, including his own paper's. What happened? First, he waited a week to come forward as the *Review-Journal*'s new owner, then reporters revealed they had been ordered to monitor three local judges (one presiding over a case involving his Las Vegas Sands Corp.) while the deal was being negotiated. Adelson said he left everyday operations in the hands of existing management. The *Review-Journal* released a bold front-page editorial: "If the Adelsons attempt to skew coverage ... the Review-Journal's editors and reporters will fight it."

In Macau Adelson faces a bigger problem than bad press. He has four casino-resorts in the troubled region, where the Chinese government's crackdown on corruption has scared off high rollers. Across Macau, gaming revenue was down 34% last year; sales at his casinos there were down an average of 33% year over year in the third quarter.

Son of a Boston cabbie, at age 12 Adelson borrowed $200 from his uncle for a license to sell newspapers. He made a fortune hosting trade shows, cashed out in 1995 and got into casinos; he owns the Venetian and Palazzo. He's perhaps best known as a Republican kingmaker (he spent at least $100 million in 2012 in a bid for a GOP White House), castigated by Democrats as a symbol of wealth's influence on politics.

NEW BILLIONAIRE BY JENNIFER WANG; RICHEST BY STATE BY CHASE PETERSON-WITHORN
ILLUSTRATIONS BY BRIAN TAYLOR (LEFT); CHRIS LYONS (TOP)

SEAL THE DEAL

A Step Above

Put your best foot forward in a pair of burnished leather shoes.

WHEN LEBRON JAMES isn't sporting his eponymous Nikes, the NBA's highest-paid player *(see p. 24)* often steps out in custom shoes by George Esquivel. A handmade pair from the Los Angeles designer will set you back between $1,000 and $5,000 (depending on material), and one of its hallmarks is burnished leather, which has a rich patina that makes them look like well-worn favorites. The effect works on a variety of styles—loafers, wingtips and more—so they're versatile enough to complete a suit or dress up a pair of jeans. The ball's in your court.

Clockwise from top:
1) Vanas wingtip shoes by Esquivel ($950);
2) Burnished leather loafers by Fratelli Rossetti ($680);
3) Preston cap-toe shoes by Cole Haan ($328);
4) Burnished leather shoes by Santoni ($1,190);
5) Burnished double monk-strap shoes by A. Testoni ($770);
6) Venezia leather Derby shoes by Berluti ($2,130).

BY MICHAEL SOLOMON

PHOTOGRAPH BY DAVID ARKY; CREATIVE STYLE DIRECTOR: JOSEPH DEACETIS; STYLE ASSOCIATE: JUAN BENSON

ALWAYS BE CUTTING EDGE & CUTTING COSTS

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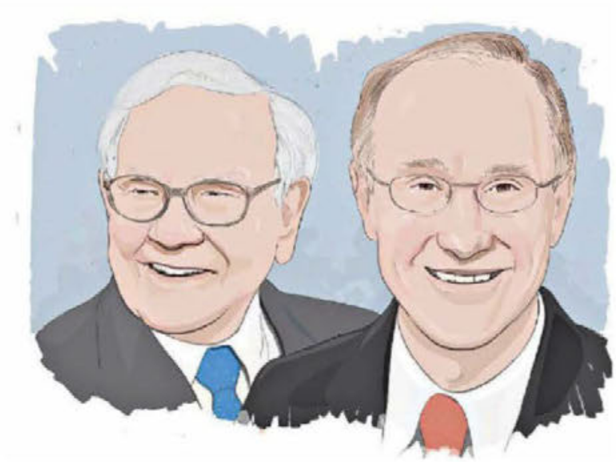
Images are for illustrative purposes only.

LeaderBoard

THE BLANK OF BLANK

The Warren Buffett of Australia



BUY AND HOLD—for a long, long time. That's the value-oriented investing style of Kerr Neilson, cofounder of Platinum Asset Management in Sydney, Australia.

The South Africa-born Neilson was an executive at Bankers Trust Australia before helping get Platinum off the ground in 1994. The firm has grown to roughly $19 billion in assets under management across more than ten funds. Neilson has encouraged his team to think big and scour the globe for potential investments. (They've been particularly bullish on Asia.)

WARREN BUFFETT	KERR NEILSON
85	66
NET WORTH	
$60 BIL	$1.9 BIL
FAVORITE INSTRUMENT	
UKULELE	CHINESE STOCKS
HOW HE GIVES	
PLEDGED TO DONATE 90% OF FORTUNE	LOST AT LEAST $800 MILLION IN DIVORCE

Neilson keeps his investors in the loop with regular blog posts on Platinum's website. As with Buffett, his modus operandi is Ben Grahamesque: a studied hunt for unloved and undervalued stocks.

SCORECARD

ZHOU CHENGJIAN
–$130 MILLION

NET WORTH: $2.4 BILLION

Trading of his apparel company, Shanghai Metersbonwe, is suspended after he becomes the second Chinese billionaire in two months to go missing amid anticorruption investigations.

ALL EXCESS

The New Sand Castle

Dubai's latest luxury towers offer high-tech entertainment, a man-made beach and an indoor rain forest.

LEAVE IT TO DUBAI—land of pet lions, gold toilets and Lamborghini police cars—to build the world's most decadent desert oasis.

Now rising in the city's Al Thanyah district, the $550 million Rosemont Hotel & Residences will be the first building on earth with its own rain forest: a 75,000-square-foot jungle, complete with a splash pool and cafe. The supersize terrarium will use only recycled water collected from condensation and will feature a novel artificial beach—one without sand. The 1.1-million-square-foot complex centers on a pair of glass skyscrapers—a 53-story hotel and a 55-story apartment building on Sheik Zayed Road—atop a luxury retail space. Designed by ZAS Architects Dubai, the development will have 448 hotel rooms and 280 furnished apartments, including a 6,300-square-foot presidential pad with its own private spa, sauna, Jacuzzi and swimming pool with waterfall feature. The suites will be available for short- and long-term stays but not for purchase.

Expected to open in 2018, the resort will also have a cantilevered infinity sky pool with a glass bottom, plus a bowling alley, a nightclub and high-tech gaming entertainment. Perhaps the best part? Robotic luggage handlers—which means you won't even have to tip.

BLANK BY ABRAM BROWN; ALL EXCESS BY KRISTIN TABLANG
ILLUSTRATION BY PATRICK WELSH; IMAGINECHINA (BOTTOM)

LeaderBoard

SPORTSMONEY

The Most Valuable NBA Franchises

THESE ARE slam-dunk days for NBA owners: Team values are soaring thanks to media and sponsorship deals that are typically renewed at double or even quadruple the previous amount. Biggest among them is the nine-year, $24 billion pact the NBA signed with TNT and ESPN/ABC, which tips off next season.

The league's 2011 collective bargaining agreement, which enhanced revenue sharing for poorer small-market teams and cut player costs, means that every team except one—billionaire Mikhail Prokhorov's Brooklyn Nets—turned an operating profit last season. The average franchise is now worth $1.25 billion, up 13% from a year ago. The New York Knicks reclaimed the top spot from the Los Angeles Lakers after a one-year hiatus, thanks to a new cable deal and the highest premium-seating revenue in the league.

Mikhail Prokhorov paid an enterprise value of $1.7 billion in December to acquire the 20% of the Brooklyn Nets and the 55% of the Barclays Center's operating rights he didn't already own.

The San Antonio Spurs' average local television rating of 8.1 (that is, the percentage of households watching at the time) led the NBA last season.

The Washington Wizards increased ticket prices 22% on average this season after posting their best record in 36 years (46–36) during the 2014–15 season.

RANK	TEAM	1-YEAR CHANGE	REVENUE ($MIL)	OPERATING INCOME ($MIL)[1]	CURRENT VALUE ($MIL)[2]
1.	New York Knicks	20%	$307	$108.9	$3,000
2.	Los Angeles Lakers	4	304	133.4	2,700
3.	Chicago Bulls	15	228	67.6	2,300
4.	Boston Celtics	24	181	57.4	2,100
5.	Los Angeles Clippers	25	176	20.6	2,000
6.	Golden State Warriors	46	201	57.6	1,900
7.	Brooklyn Nets	13	220	–5.7	1,700
8.	Houston Rockets	20	237	74.6	1,500
9.	Dallas Mavericks	22	177	24.3	1,400
10.	Miami Heat	11	180	20.8	1,300
11.	San Antonio Spurs	15	170	31.9	1,150
12.	Cleveland Cavaliers	20	191	24.8	1,100
13.	Phoenix Suns	10	154	21.8	1,000
14.	Toronto Raptors	7	163	23.5	980
15.	Portland Trail Blazers	4	157	4.1	975
16.	Washington Wizards	7	146	2.9	960
17.	Oklahoma City Thunder	2	157	20.9	950
18.	Sacramento Kings	16	141	4.2	925
19.	Orlando Magic	3	143	35.4	900
20.	Utah Jazz	3	146	27.5	875
21.	Denver Nuggets	0	140	26.3	855
22.	Detroit Pistons	5	154	16.4	850
23.	Indiana Pacers	1	138	19.0	840
24.	Atlanta Hawks	0	142	7.0	825
25.	Memphis Grizzlies	4	147	10.3	780
26.	Charlotte Hornets	3	142	3.7	750
27.	Minnesota Timberwolves	15	146	15.1	720
28.	Philadelphia 76ers	0	124	13.9	700
29.	Milwaukee Bucks	12	126	11.6	675
30.	New Orleans Pelicans	0	142	19.7	650
	League Average	11	173	30.0	1,245

REVENUES AND OPERATING INCOME ARE FOR THE 2014–15 SEASON AND NET OF REVENUE SHARING AND ARENA DEBT SERVICE. [1]EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION. [2]ENTERPRISE VALUE (EQUITY PLUS NET DEBT) OF TEAM BASED ON CURRENT ARENA DEAL (UNLESS NEW ARENA IS PENDING). **FOR MORE GO TO FORBES.COM/NBA.**

THE HIGHEST-EARNING NBA PLAYERS

1. LEBRON JAMES
Cleveland Cavaliers
Total earnings: $71 million
SALARY: $23 MILLION
ENDORSEMENTS: $48 MILLION

2. KEVIN DURANT
Oklahoma City Thunder
Total earnings: $56.2 million
SALARY: $20.2 MILLION
ENDORSEMENTS: $36 MILLION

3. KOBE BRYANT
Los Angeles Lakers
Total earnings: $50 million
SALARY: $25 MILLION
ENDORSEMENTS: $25 MILLION

4. DERRICK ROSE
Chicago Bulls
Total earnings: $34.1 million
SALARY: $20.1 MILLION
ENDORSEMENTS: $14 MILLION

5. JAMES HARDEN
Houston Rockets
Total earnings: $32.8 million
SALARY: $15.8 MILLION
ENDORSEMENTS: $17 MILLION

BY MICHAEL K. OZANIAN, KURT BADENHAUSEN AND CHRISTINA SETTIMI

LEBRON JAMES: CHRISTIAN PETERSEN/GETTY IMAGES, MIKHAIL PROKHOROV: DAVID DOW/NBAE/GETTY IMAGES, SAN ANTONIO SPURS: CHRIS COVATTA/NBAE/GETTY IMAGES, WASHINGTON WIZARDS JOHN MCDONNELL/THE WASHINGTON POST/GETTY IMAG ES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FORBES @ 100

As FORBES' centennial approaches in September 2017, we're unearthing a collection of our favorite covers.

Sound of Success: July 15, 1968

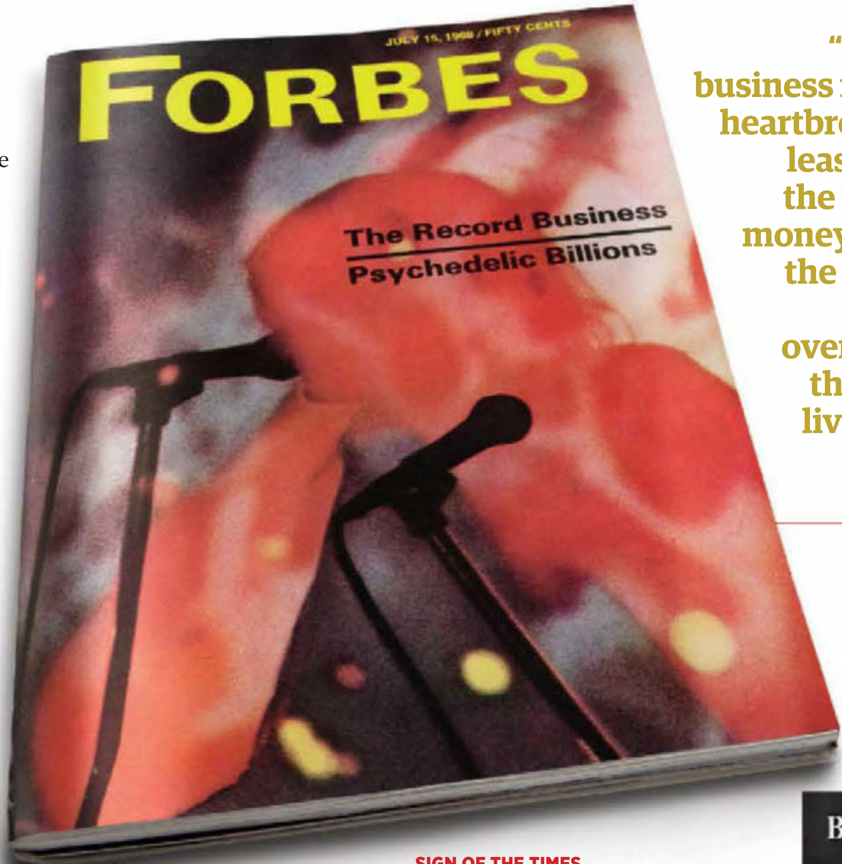
A PARTICULARLY melodious moment arrived in the year between the Summer of Love and Woodstock—for the record business, at least. The industry had exploded to almost $900 million in retail sales (around $6 billion in today's dollars, up 200% in a decade), propelled by tunes from the likes of the Beatles, the Doors and The Who. Top-label executives were as colorful as the musicians: RCA's Felton Jarvis greeted a FORBES reporter dressed not in a suit but in a turtleneck and necklace, blasting Mickey Newbury's psychedelic ballad "Just Dropped In" ("I pushed my soul into a deep, dark hole/

and followed it in"). Jarvis kept two pictures in his windowless Nashville office: a shot of Elvis faced a picture of Madonna, as in Jesus' mother—emblematic of an age when pop stars ascended to the level of deities.

OLD PLACES, OLD FACES

Rock Hudson's Money Manager

When late-'60s Hollywood A-listers needed someone to manage their finances, they overwhelmingly chose the ink-black-haired Andy Maree, whose firm brought in $10 million to $20 million in annual revenue by advising on taxes, insurance, bills and contract negotiations. Maree died in 1985, but his firm, A. Morgan Maree Jr. & Associates, still provides financial advice to celebs today.



"The movie business is the most heartbreaking and least secure in the world. The money, the fame, the big houses can vanish overnight, and these people live in mortal fear of it."

AWESOME ADS

Sales Calls

Behold, the latest weapon for the nation's road warriors: long-distance telephony!

SIGN OF THE TIMES

Pepsi, Supersized

The 1960s was the age of sprawling conglomerates such as Gulf & Western (Paramount Pictures, zinc mining, cigars) and ITT (telecom, air conditioners, shock absorbers). Pepsi had successfully merged with Frito-Lay in 1965 and three years later was adding truck, car and equipment leasing to its operations, including moving company North American Van Lines.

"Listen, Dad: This is now an industry where an investment of next to nothing can make a man a millionaire practically overnight."

FAST FORWARD

Mighty Crowns

1968: Hilton Hotels cofounder Henry Crown's $77 million investment in nine companies in a variety of industries (banking, coal, meatpacking) had risen 66% to $128 million in three years.

2016: Crown's descendants control an estimated $8.8 billion fortune, with stakes in everything from the New York Yankees to an Aspen ski resort.

BY ABRAM BROWN

TOM KELLEY/GETTY IMAGES; SILVER SCREEN COLLECTION/GETTY IMAGES

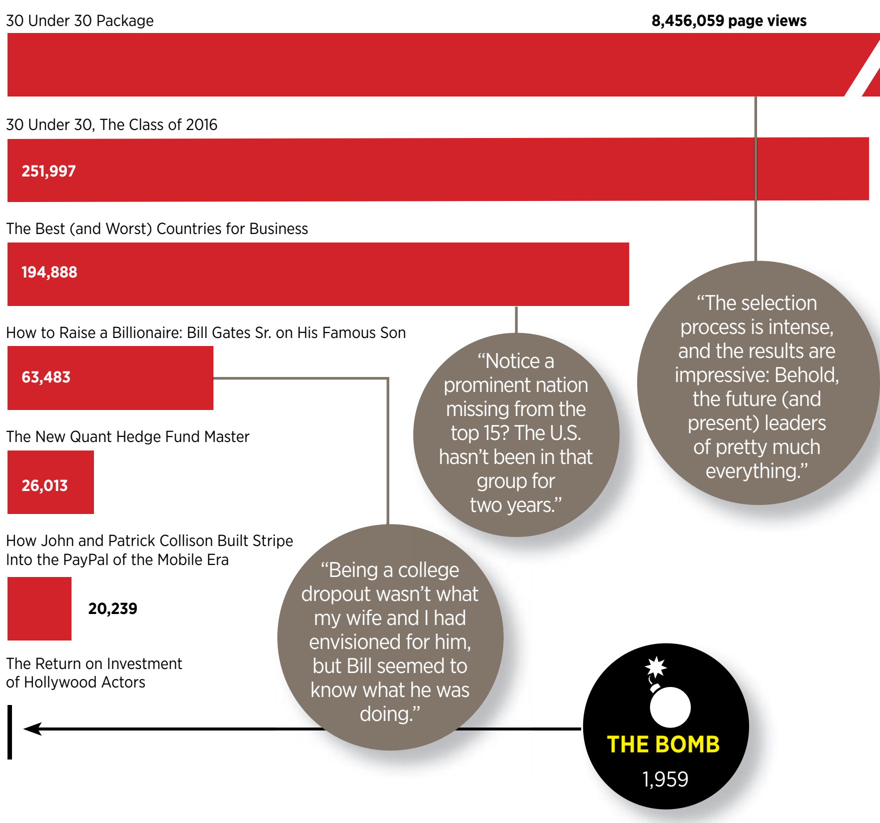
LeaderBoard

CONVERSATION

OUR FIFTH ANNUAL 30 Under 30 issue (Jan. 18) celebrated 600 young disruptors across 20 industries. Their professional diversity was reflected in the organizations that tweeted congratulations: VC firm New Enterprise Associates, Harry Potter fan site MuggleNet, even *Saturday Night Live* ("Look who's on the @Forbes #30Under30 ... Pete Davidson!" @NBCSNL tweeted, with nary an ounce of wit). Since the first 30 Under 30 in 2012, we've expanded our coverage from 12 industries, adding social entrepreneurship, gaming and more. And though all honorees are on equal footing, some still get starstruck. Bench CEO Ian Crosby, who made our Enterprise Tech list, noted *Star Wars* breakout John Boyega on the Hollywood list, tweeting: "Forbes, is it awkward to bring a Finn lunchbox to the 30 Under 30 event? #askingforafriend."

THE INTEREST GRAPH

Wasted youth? Hardly: Readers went wild for our 30 Under 30, making the complete online package one of the most viewed we've ever published.



TECH FOR TOTS

Filmmaker Ankush Jindal and actor Aly Mawji parodied our 30 Under 30 with "10 Under 10"—a taped series of interviews with top young (*really* young) tech influencers. From Mawji's chats with these purported startup wunderkinds:

What inspired you to create Binky Meets Cradle?

Tracy Tsang, 7, CTO/cofounder: "I was tired of all the playdates I had. I kept asking myself, where were all the good ones?"
Jackie Tsang, 10, CEO/cofounder: "We went to this ball pit, we went to that twisty slide ... it got boring."

What value did Google Ventures see in Duck Duck Duck?

Ryan Pohlson, 10, CEO/founder: "It's like Uber, but for ducks. We've disrupted the bath-time industry. We're the thought leaders in rubber ducks."

Tell us about your company.

Aaron Rogier, 6, CEO/founder: "Napchat is a messaging app for kids to nap—socially, mobile-ly."

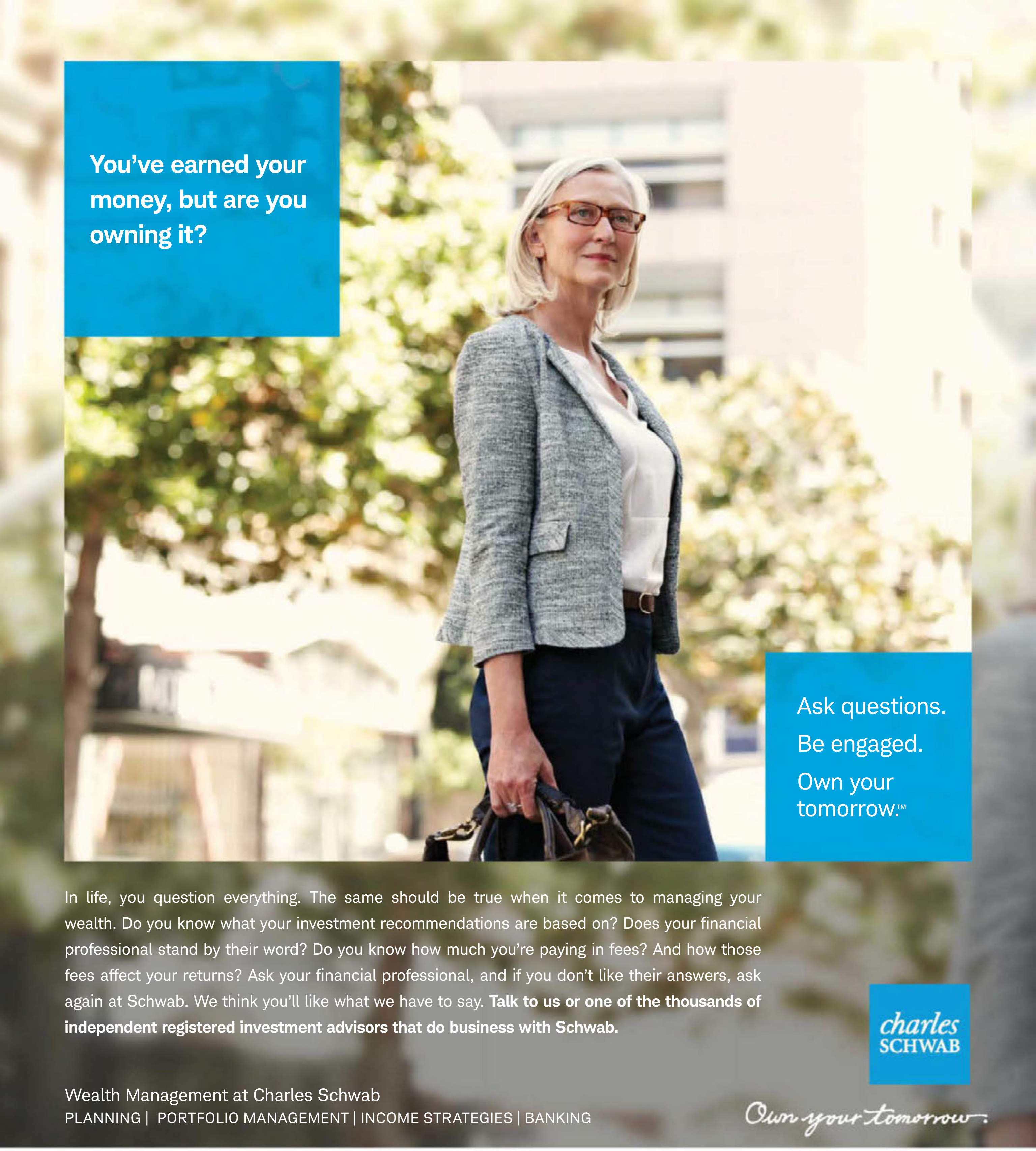
What's your vision for the future of Duck Duck Duck?

Ryan Pohlson: "We're innovating. Growth-hacking, really. Pivot, disruptive, big data."

What advice would you have for your younger self?

Aaron Rogier: "Drop out of school and buy more Bitcoins."
Jackie Tsang: "I wish I'd dropped out of school younger. It's tough to stay relevant in the Valley past a certain age."

BY MICHELA TINDERA


You've earned your money, but are you owning it?
Ask questions.
Be engaged.
Own your tomorrow.™
In life, you question everything. The same should be true when it comes to managing your wealth. Do you know what your investment recommendations are based on? Does your financial professional stand by their word? Do you know how much you're paying in fees? And how those fees affect your returns? Ask your financial professional, and if you don't like their answers, ask again at Schwab. We think you'll like what we have to say. **Talk to us or one of the thousands of independent registered investment advisors that do business with Schwab.**
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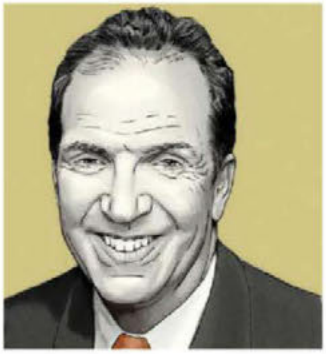
INVESTORS STRETCHED THIN



WHAT A PICKLE. Even if the January equity slump resolves itself, investors face another tough year. The Federal Reserve and other financial regulators have been aggressively deflationary, driving the dollar up and prices down, starting with gold in 2011. As discussed in many of these columns, both the Fed's zero interest rate and its post-2009 bond buying have been giant mistakes, causing global growth to grind to a near halt.

The monetary policy burden has been compounded by a lack of structural reforms in the U.S., Japan and Europe. The U.S. government spends without a meaningful budget, squandering hundreds of billions of taxpayer dollars per year while imposing a regulatory maze that's almost impenetrable. Our personal income tax system is in shambles. Our corporate tax rate is one of the world's highest, causing corporate flight, while some of our strongest companies keep their cash abroad to avoid confiscatory tax rates at home.

The Fed's policies directed most credit to bond issuers and financial engineers, not growth. This drove high-grade-bond yields down to the point that they don't offer much income. For investors and savers, it's a problem that could last for years.

For decades investors have been advised to keep a mix of stocks and bonds, with a growing percentage in bonds as they age. That worked when bond yields were high, but it won't be enough for retirement, given low yields and longer life expectancy.

Equities in many existing companies are priced aggressively, assuming strong earnings growth, but earnings prospects are weak or negative. Business investment has been low in most sectors, and global trade is in free fall. This will worsen if Europe's measures to screen refugees turn into protectionism.

High-yield bonds offer more income, but they aren't cheap, given their risk, especially if growth remains slow. Real estate has been a market darling, but returns going forward will depend on growth and inflation, both in short supply.

My Sept. 8, 2014 Current Events column, "Returns Set to Plunge," explained how Fed policy "created artificially high current returns at the expense of future returns. ... The policy rechannels credit to those who don't need to be subsidized—the government, big business and the rich ... at the expense of those who could use capital more profitably."

In 2015 the total return on large U.S. stocks (the S&P 500, including dividends) slumped to only 1.4%. Total returns for a basket of smaller companies were negative: for Russell midcap stocks, –2.4%; small-cap stocks, –4.4%. The ten-year Treasury bond returned only 1.1%, below many measures of inflation. And 2016 has started so badly that it could turn out to be worse than 2015 unless government policies change drastically.

NOT MUCH WAS SOWN

Rather than using profit to build their businesses, many companies have been buying stock by borrowing or underinvesting. That drives up stock prices in the short term, but long-term investors are depending on new profits, not just the bidding up of faltering growth. For many companies there's not much to reap because not much was sown. Earnings actually shrank in 2015, a phenomenon that's likely to turn into an earnings recession.

It's hard to find wiggle room in this grim equation. The solution is more business investment and faster growth, but that takes strong leadership focused on constructive change. Governments are heavily indebted and poorly managed. Rather than helping living standards, they're often part of the problem, as shown in submerging markets in Brazil, Russia, South Africa and Venezuela. Japan's Abenomics consisted primarily of the government spending heavily and the central bank buying low-yielding government bonds—not a recipe for growth. Europe hasn't been able to salvage Greece's government, much less adopt the spending restraint, banking reforms and market liberalizations needed for more growth.

That brings the key investment variable back to square one: U.S. economic leadership. The U.S. is, by far, the world's biggest economy, with more private-sector investments in stocks, bonds and real estate than the rest of the world combined (not counting China's quasi-private sector). Its growth problems are obvious, with solutions available in 2017.

This year began on a bad note, but markets look ahead. If they see policy improvements on the horizon, there will still be time to salvage 2016 for investors. F

THOMAS KUHLENBECK FOR FORBES

DAVID MALPASS, GLOBAL ECONOMIST, PRESIDENT OF ENCIMA GLOBAL LLC; PAUL JOHNSON, EMINENT BRITISH HISTORIAN AND AUTHOR; AND AMITY SHLAES, PRESIDENTIAL SCHOLAR AT THE KING'S COLLEGE AND CHAIR OF THE COOLIDGE FOUNDATION BOARD, ROTATE IN WRITING THIS COLUMN.
TO SEE PAST CURRENT EVENTS COLUMNS, VISIT OUR WEBSITE AT WWW.FORBES.COM/CURRENTEVENTS.

2016's SILVER LININGS

THOMAS KUHLENBECK FOR FORBES

STOCKS IN THE U.S. and on the global markets suffered the worst opening week in history. Billionaire investor George Soros said, "[It] reminds me of the crisis we had in 2008." Pray he's wrong. America's—and the world's—top-valued company, Apple, finished this rotten first week 28% below its 2015 high. Apple is in bear territory for the first time in eight years.

Geopolitically, the news isn't cheerful. Saudi Arabia (big ally: the U.S.) and Iran (big ally: Russia) have moved closer to armed conflict. North Korea claimed it exploded a hydrogen bomb—for social justice. Europe is struggling to absorb millions of Syrian refugees. Most Americans believe ISIS is a threat to the U.S.

And, finally, the U.S. presidential campaign of 2016 is, well, precedent shattering. Last year's predictions from the most-informed Washington pundits have proven largely useless.

Against this wall of uncertainty and gloom, does 2016 have any silver linings? Yes, it does. Here are five.

• **China's economy won't blow up.** Such longtime China bears as James Chanos and Gordon Chang appear, if you take the recent rapid drop in Shanghai's stock market, to be finally vindicated. But China's stocks are not the full China story. For one thing, Chinese stocks are mostly held by Chinese citizens. What you're seeing in China is a classic panic. The bubble was inflated by last-in, unsophisticated buyers with a gambler's hope. In every culture, in all times, gamblers eventually lose. So it is again.

China's actual economy has slowed from its 8% to 10% growth of recent years to 6%. Its industrial sector has slowed even more. But software and services and the country's internal entrepreneurial and consumer economies are doing nicely. The China bears will be proven wrong again.

• **American stocks won't collapse.** Could the U.S. stock market drop 20% from its May 2015 peaks? Sure, but that's the definition of a bear market. It's nothing like the 57% collapse of 2007–09, even if traffic-hungry financial bloggers are screaming collapse. Get a grip. Since the stock market bottomed in March 2009, we've already gone through one bear market (20% drop from previous highs), in 2011. Another shouldn't surprise.

• **Jobs will continue to grow—wages, too.** Expect to see 2.5 million more jobs a year from now on. Headlines cry that wages were flat in 2015, but they in fact rose 2.5%, according to Brian Wesbury and Bob Stein of First Trust Advisors. (If you suspect that Wesbury and Stein are shilling for the Obama Administration, you couldn't be further from the truth.)

• **Presidential candidates will debate taxes and regulations.** The clown shows of 2015 will soon get serious. As the Republican field winnows to Trump and two or three non-Trumps, actual economic policy will make its way to the stage. Are you for or against a flat or a simplified tax code? How many brackets and at what rates? Are you for or against repealing ObamaCare, Sarbanes-Oxley and Dodd-Frank? Are you for reining in the IRS and the EPA and restoring law? Hillary Clinton or Bernie Sanders will eventually have to come out of their utopian nirvanas to debate a toughened-up GOP candidate.

The effects of regulatory overreach and tax complexity on small businesses will get debated in the general election—and that's a good thing. In fact, small-business owners are among those angry "radical middle" voters who may decide the election.

• **Digital gets physical.** Finally, for all the dark clouds hovering over the U.S. and global economies, please note the fantastic feats of invention and bravura occurring all around us. Start with the American private space companies. Both Jeff Bezos (Blue Origin) and Elon Musk (SpaceX) have demonstrated a reusable rocket. It's great to see Bezos and Musk, two extraordinary Web entrepreneurs, invest money in building physical things (Musk twice, with Tesla Motors). Digital is getting physical, and that's exciting. Digital isn't just social media and clever phone apps. It's breaking out of its coder ghetto. It's now about driverless cars that will reduce the 30,000 car deaths per year in the U.S., commercial drones that will make agriculture more efficient and feed more people, robots that will take on dangerous jobs, and watches and wristbands that will monitor our physical health. The Internet of things means just that—real things, not just bits, bytes and pixels.

Shed your doom and gloom. It's a great time to be alive.

RICH KARLGAARD IS THE PUBLISHER AT FORBES. HIS LATEST BOOK, *TEAM GENIUS: THE NEW SCIENCE OF HIGH-PERFORMING ORGANIZATIONS*, CAME OUT IN JULY. FOR HIS PAST COLUMNS AND BLOGS VISIT OUR WEBSITE AT WWW.FORBES.COM/KARLGAARD.

Verticals

February 8, 2016

During the first dot-com boom fewer than 10 of more than 450 payments startups survived, PayPal most notably. Adyen, a rising Dutch online-transactions firm, has installed a rock wall in its Amsterdam office—an apt metaphor for the tough climb ahead. **PAGE 42**

PHILIP JINTES, AMSTERDAM FOR FORBES

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Bank Under Attack

Fintech pirates are circling giant State Street and investors are agitated, but its chief executive, Jay Hooley, has a plan to convert his lumbering vessel into a nimble skiff.

BY STEVE SCHAEFER

On a brisk October afternoon in Boston the second floor of State Street's Channel Center office is swarming with a mix of executives, investors and entrepreneurs who think they have the next great idea for financial services. It's demo day for FinTech Sandbox, a Boston-based nonprofit that helps connect financial services startups with massive data sets from established firms throughout the industry.

The presenting companies—a handful of social networking sites for investors, a tool that crawls through regulatory filings for corporate red flags and an options-trading monitor that aims to highlight burgeoning activity ahead of major financial news like an M&A—are basically newborns, but they represent a fast-approaching future that banks and asset managers can't afford to ignore.

That's just fine with the giant bank hosting the event, State Street Corp.

"Over our long history periods of significant regulatory change have provided the greatest opportunities," says its buttoned-down journeyman chief executive, Joseph "Jay" Hooley III, 58.

Hooley is on a mission to transform the 223-year-old bank—best known as the stodgy custodian of $28 trillion in assets for other financial firms and pension funds—into an agile financial platform with technology at its core. In 2010 he took the reins soon after the bank had paid back $2 billion in financial-crisis TARP loans.

Faced with a restrictive postcrisis regulatory environment that has forced many banks to shed risky assets and avoid profitable pre-crisis businesses like derivatives and proprietary trading, Hooley has committed some $450 million to a technology-infrastructure overhaul, including the development of a "private cloud" devoted to the firm's 9,500 clients. Hooley hasn't ignored costs—he is more than halfway to his $1.1 billion of planned fat-trimming—but his main focus has been using technology to leverage the bank's inherent advantage in Big Data.

State Street's tentacles touch trillions in assets, from pensions managed by TIAA-CREF to Latvia's central bank and tiny college-savings 529 plans. A relatively new operation, Global Exchange, known as "GX" inside State Street, uses the bank's securely held data to develop new tools and analytics for clients. So as asset managers, owners, brokerage firms and others transact with State Street, the firm aggregates real-time signals that can translate into new risk metrics, benchmarks, regulatory tools and investment opportunities.

The fledgling unit, which will generate several hundred million of the $10.5 billion in revenue State Street expects in 2016, is home to products like a new private equity benchmark and real-time inflation measures in partnership with MIT's Billion Prices Project, which aggregates prices from hundreds of online retailers around the world daily. CalSTRS, the public pension fund for California teachers, adopted State Street's GX Private Equity Index as an important complement to the yardstick it was already using. The index, based on limited partnership data sourced from State Street clients, represents more than $2 trillion of private equity investments across 2,400 funds, including real-time readings of daily cash flows and analysis of internal rates of return over multiple time periods.

"They're very adaptable," says Paul Greenwood, head of investment risk at Alliance Bernstein. "That's not a word you'd usually associate with a trust bank."

Because of State Street's sheer size, it falls into the ever unpopular "too big to fail" group of financial institutions, so redefining itself as a technology company could be important to State Street's long-term survival as a single entity. "Fifty years from now what's written

Twenty-first-century office space and a fresh herd of technologists are key to State Street Chief Executive Jay Hooley's game plan.

SHAWN G. HENRY FOR FORBES

about this era won't be about the financial crisis—it will be about how technology revolutionized the financial system," says Hooley.

His challenge is convincing investors that the technology push can move the needle for a business whose profits are still largely driven by the massive but glacially growing custody business. Global custodians hold securities and assets for other firms and funds like those offered by Vanguard, acting as legal representatives, paying taxes and making sure beneficiaries get what they are entitled to on a timely basis. Today State Street's global custody business is in 100 markets around the world and accounts for more than 88% of the firm's revenue. During the first nine months of 2015 State Street's total revenues inched up 2% to $7.8 billion, while pretax income and margins fell by more than 13%, to $1.6 billion and 21%, respectively.

CLSA analyst and industry gadfly Mike Mayo calls trust banks "the world's worst oligopoly," arguing the main players—State Street, Bank of New York Mellon and Northern Trust—are grappling with pricing pressure and competing over slimmer profits.

"The trust banks lack bargaining power with their large clients," Mayo says, leading to lower returns on equity and investment. He compares the competition to "tots fighting in a sandbox," as low interest rates put pressure on a segment already dealing with declining pricing. That pressure to eke out pennies in profits may have a lot to do with periodic allegations that State Street overcharges clients. In December, for example, the bank admitted it had overcharged its asset-servicing clients by $200 million over the last 18 years.

Besides custody, State Street also has a large asset management business, State Street Global Advisors, which currently has $2.2 trillion under management and is a major player in exchange-traded funds, offering 245, including its popular SPDR S&P 500 ETF.

The big question shareholders are asking is whether Hooley is a change agent or merely one in a long line of company stewards. In many ways Hooley epitomizes the notion of a company man. He grew up in nearby Natick, Mass. as one of five children in an Irish Catholic family he describes as solidly middle class. After graduating from Boston College in 1979 as a marketing major, he sold Hoover vacuum cleaners before landing a job at AT&T while it was shedding the "Baby Bells" and getting into data processing. In 1986 Hooley took a job in U.S. mutual fund sales at State Street. At the time his father was a 32-year company veteran, running the bank's main retail branch on Franklin Street. (Hooley's brother Steve is also a longtime State Street employee.)

Blessed with a silver tongue and a knack for bringing in clients, Hooley rose to lead the mutual fund sales force, impressing senior management enough so that in 1988 he was tapped to run State Street's Kansas City-based shareholder-servicing joint venture.

After making a series of strategic acquisitions, Hooley returned to the home office in 2000 to run global investment servicing, where he acquired Deutsche Bank's servicing unit in 2003 and Investors Financial Services Corp. in 2007. In 2008 he was named president and COO, and in March 2010 he was elevated to chief executive. Hooley has had mixed reviews from investors. The stock has returned 39% versus 42% from BNY Mellon and 39% from Northern Trust. The S&P 500 has returned

93% over the same span.

Shareholder David Katz of New York-based Matrix Asset Advisors thinks Hooley is too soft on cost-cutting. “Maybe they have a better mousetrap than before, but it’s not hitting the bottom line,” says Katz, who points to the bank’s poor record of operating leverage, a metric that measures revenue growth in excess of expense growth. State Street has hit its goal of two percentage points in only three of its last ten quarters.

“It’s one [stock] where you say, ‘I’ll hold my nose and make money on it,’ but I don’t feel great about how it’s being managed,” Katz says.

Hooley’s best chance at silencing critics may be his fintech project, Global Exchange. About 18 months ago he pulled together a group of nearly 100 senior executives and tasked them with answering a single question: If you were the competition, how would you disrupt State Street?

Importantly, the competitive set wasn’t limited to fellow financial institutions. “We spent time looking into Google, Apple, Alibaba, and we were surprised how focused they were on financial services,” says Hooley.

Ultimately, the group reported back with ideas that Hooley boiled down to three primary areas of pursuit: robo-advice, payments and blockchain encryption, the technology behind digital currency Bitcoin.

Hooley thinks blockchain’s distributed ledger-transaction protocol represents the biggest threat—and opportunity. It could ultimately become a standard for financial transactions and real-time settlements, increasing transparency and efficiency in an industry that remains highly fractionalized. Put simply, blockchain technology could drastically reduce demand for many of State Street’s core businesses.

So State Street is working on a number of pilot programs to get ahead of this and actually integrate the technology into its existing offerings. It is among the 42 banks working with FORBES Fintech 50 member R3 CEV toward a goal of standardized and shared ledger technologies. “If we can make blockchain the Internet of financial services, we all benefit,” says Hooley, particularly if it allows for real-time settlement across different geographies and currencies.

Meanwhile, State Street clients are already benefiting from its private cloud, which allows them to easily mine and model all of the proprietary data in their accounts, using tools (for a fee) related to such things as risk management, asset correlations and stress testing developed by State Street’s analysts and coders.

Hooley’s tech push is an effort to lessen the bank’s dependence on interest rate changes and overall global economic growth. Says he: “While Facebook-style growth rates may not be in our near or distant future, we have a stated goal of 8% to 12% revenue growth in spite of interest rates.”

One thing Hooley hasn’t wasted any time on is recruiting technologists from places like MIT, KPMG and Google, including 850 at Global Exchange and 350 more engineers, data scientists and coders hired across the bank. “We can’t get them in the door quick enough,” says Hooley. One key hire has been a new COO for innovation, Sarah Biller, co-founder of a predictive-analytics firm called Capital Market Exchange, which used Big Data, machine learning, text analysis and visualization technologies to create bond-trading strategies.

To accommodate the new hires Hooley built an environmentally friendly building on South Boston’s waterfront in 2014 with the goal of bringing workers who were spread out on suburban campuses back into the city and saving $9.7 million in taxes. As with many tech startups, Hooley’s new digs—with its flexible working spaces, standing desks, abundant snack areas, a fitness center, bike racks and meditation rooms—are chasing a productivity cliché.

Abundant snacks and yoga mats may improve morale, but when the bulk of your profits are derived from the minutiae of efficiently sitting on large amounts of marketable assets and from interest rate spreads, Hooley might do just as well directing his meditations toward the Federal Reserve and other global central banks. *

FINAL THOUGHT

"When action grows unprofitable, gather information; when information grows unprofitable, sleep." —**URSULA K. LEGUIN**

#

BY THE NUMBERS

RETAILERS AT RISK

AFTER A TOUGH HOLIDAY SHOPPING SEASON MANY RETAILERS ARE UNDERSTANDABLY GLOOMY. WHICH ONES ARE LIKELIEST TO CLOSE STORES AND LAY OFF WORKERS AS 2016 WEARS ON? A FINANCIAL-HEALTH ASSESSMENT FACTORING IN 62 WEIGHTED DATA POINTS (PROFITABILITY, CASH FLOW AND MANY MORE) OFFERS SOME CLUES. FOR MORE GO TO **FORBES.COM/BUSINESS.**

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SPENCER PLATT/GETTY IMAGES

He Solved Facebook

Sprinklr is cleaning up by helping big brands make sense of the maelstrom in social media.

BY ALEX KONRAD

Ragy Thomas has a saying about attendance at Sprinklr's weekly customer review meetings, held every Monday at noon across the startup's 11 offices worldwide. Senior staff and board members know it by heart: "The only excuse is if you're attending your own funeral."

For a CEO with a Catholic devotional item around his neck and a Buddha on his shelf, the motto is more a motivation than a threat. The conference calls, formally named the Customer Delight Assurance Program, or "See-daps," run down every Sprinklr account with any cause for concern. Sprinklr's clients are some of the biggest global brands and demand constant attention to their feeds on any of two dozen social networks. As Thomas told his 1,100 employees at a recent all-hands meeting: "Every one of you is in sales now."

Ten years ago Thomas was chasing a previous marketing boom, when e-mail became the hot way for brands to pursue their customers. His company back then sold for $120 million. Today social media is the main arena, and Thomas' six-year-old startup, Sprinklr, has the potential to achieve much more. Brands such as Nike, Verizon, McDonald's and Starwood (and FORBES) are getting increasingly sophisticated in how they want to publish and monitor their reputations on Facebook, Twitter, Instagram and Pinterest. The social platforms are also getting more savvy about working with these brands. Sprinklr's clients span 75 countries and include half of the 50 biggest companies in the U.S. McDonald's uses Sprinklr to build profiles of social accounts so it can recognize die-hard fans and quickly respond with love, or cordon off and address the malcontents. Josh Machiz, director of integrated marketing at Nasdaq, used Sprinklr the morning after Match.com's IPO to document the moment on Nasdaq's Facebook, Twitter and Instagram accounts simultaneously with a few taps on his phone. Nasdaq prefers Sprinklr because it keeps an audit trail of each post for securities regulators. Bigger customers like these pay Sprinklr several million bucks a year for its tools.

Sprinklr's hold on its accounts is always under siege by Adobe, Oracle and Salesforce, all of which bought their way into social media management over the past five years and run bigger operations, but Thomas' firm is growing faster. It surpassed $100 million in annualized revenue last fall, up 150% from a year earlier, when it raised $46 million in venture funds at a valuation of $1.2 billion. (Thomas owns about 30% of the firm.) The other (widely assumed) unicorn in the industry, Hootsuite of Vancouver, B.C., founded a year before Sprinklr, has a firm grip on small and medium-size business accounts but is moving up to larger clients. A passel of startups such as Sysomos Expion and Falcon Social continue to crop up, specializing in particular areas such as targeted ads or analytics, betting that companies will want to mix and match their technology. "We can't control the destiny of how the social channels will play their game," Thomas says. "But when it comes to engagement and publishing and response, we can be the centerpiece."

Thomas uses the hipster word "man" a lot, and customers and employees call him a hugger. He does exude a spiritual calm. A Protestant by birth, Thomas grew up in India with a two-year sojourn in Nigeria, where he was held out of the third and fourth grades. His teenage years were spent at a Catholic boarding school in the coast-

DAVID YELLEN FOR FORBES

Don't let the calm exterior fool you: Ragy Thomas is fiercely attacking Oracle, Salesforce and Adobe in social media software.

al hills of southern India, and he still wears a scapular, a type of Catholic devotional necklace, under his dark sweaters. Everything in Thomas' life is regimented in some way. As a college student in the Indian beach town of Pondicherry, he figured out when to stop drinking at parties by calculating the amount of time he'd need to sober up and study for an exam the next day (it worked—sometimes). In the years since he'd pick one alcoholic beverage and drink it exclusively until becoming an expert before moving on to the next. He immersed himself in coding in a job at one of India's top IT firms until he could do it faster and better than everybody around him.

In his early 20s Thomas jumped at the chance to move to America but found the Wisconsin location too quiet and too cold. He made his way to New Jersey to do IT consulting for AT&T and Bell Labs, and wound up at a dot-com in the boom of 2000. As the bubble burst, Thomas led a spinout of that company's e-mail marketing unit, which would acquire another startup and take its name as Bigfoot Interactive. As its chief technology officer he helped guide it to a $120 million acquisition by Alliance Data Systems in 2005 while getting his M.B.A. in a part-time program at New York University.

A year or so later Thomas saw the shift in online marketing from e-mail to social media and began coding social publishing tools in his spare bedroom, only to throw out much of the early work and build a dashboard for all social platforms. He named his new company Sprinklr in September 2009 because he believed the brands that do best on social are not the noisiest but the ones that carefully water their plot of land. Thomas' wife also pulled long hours in the early months until it got too hard for either of them to get up to take their kids to grade school. Thomas started landing big

customers like Cisco, Dell and Virgin America even while the company was still run from a couple servers in the basement of his Edison, N.J. home. The Dell account was the toughest test: After a Dell executive ignored feedback from a long trial and awarded the contract to a friend at another firm, Thomas kept Dell's trial access live until employees convinced their boss to choose Sprinklr after all. Feeling confident he could bootstrap his way to success without risking others' money, he held off from taking anything from venture capital firms for as long as he could. Eventually Battery Ventures partner Neeraj Agrawal was able to convince him to take $5 million in March 2011. "Ragy is a product savant who just has the instinct in his bones," Agrawal says.

When things would go bad with early customers, Thomas would scramble to fix things himself. Thomas booked a flight to visit a disappointed customer, only to find out she wasn't working that day. He convinced her to have a quick coffee with him anyway and saved the contract. In 2012 Nike told Thomas that, if its contract were up at that moment, Nike wouldn't renew. Thomas flew his best developers from India to Nike headquarters in Oregon until the worst problems were solved. Nike remains a flagship customer.

Sprinklr likes to brag internally about its retention numbers—held close to the vest until now. About 95% of its customers stay from one year to the next, a stellar rate for any software company, let alone one in social media. And that can climb to up to 150% when factoring in the additional dollars existing customers spend each year. Jan Rezab, CEO of social analytics firm Socialbakers, says to take Sprinklr's retention numbers with a grain of salt. Marketers are notoriously fickle about software tools, and the whole field is rather new.

Thomas has raised more than $100 million since 2013 and, with the funds, bought up a handful of smaller firms staffed by experts working on tools Sprinklr wanted to build itself. To make sure they integrate properly (something a lot of serial acquirers neglect to do), Sprinklr throws out the purchased technology and has its new employees start a Sprinklr version from scratch. "We are still waiting to see what the finished product is with these integrations," says Forrester analyst Erna Alfred Liousas. "They can tailor their product to what an individual customer needs, but that's not cheap to do."

But that's sometimes what it takes to land an account. Sprinklr nabbed manufacturer Schneider Electric from Salesforce in late 2015 by proving itself more nimble. It got Schneider up and running on WeChat, a hugely influential social network in China, in a matter of weeks. Verizon was another Salesforce convert, as was Starwood, which switched its more than 3,000 social media accounts across all its hotel brands in large part because of the reporting and analytics features Sprinklr added at Starwood's request. A year ago Thomas brought in longtime Cisco executive (and Sprinklr board member) Carlos Dominguez as president and COO to help stitch the various businesses together and bring rigor to its global expansion.

Sprinklr's rivals, however, see its growing suite of tools as simply a lite version of Oracle or Salesforce, imperfect grab bags that buck the trend of smart, cheaper software to do specific jobs when marketers need insights. "I don't buy into the notion that companies are focused on making just one buy," says Rezab of Socialbakers. Longtime social experts also point to challenges from new apps like Facebook Messenger that connect brands directly to customers using artificially intelligent agents over text, subverting traditional social media platforms.

Thomas laughs off the doubters. He's been talking since the beginning about building a broad set of tools companies can use to solve problems they didn't know they had. "In those days we looked like stupid sh--s," Thomas says. He won't look so stupid should Sprinklr go public in the next few years or raise money at what could easily be double its valuation today. But first Thomas wants to get Sprinklr to cash-flow positive in the next 15 months, while adding more results-based social tools to the growing menu. What could be next? Thomas falls back on one of his favorite quips: "Everything in the enterprise front office is broken, man." *

FINAL THOUGHT

* *"Social media isn't as much about reach as it is about 'reach out.'"* —MICHELE JENNAE

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The Forbes Healthcare Summit, held in New York last month, convened the leaders who shape the medical world. Highlights included: an industry-spanning talk featuring the heads of the Mayo Clinic, Merck, and Humana; a frank 1-on-1 dialogue with Theranos CEO Elizabeth Holmes on the controversy surrounding her company; and the news-making interview of Martin Shkreli, who shocked the world by saying not only did he not regret raising the price of a drug 5,000%, he should have raised it more. Patients and entrepreneurs loudly made their opinions known as a roomful of experts discussed how to control medical costs — and to make healthcare more caring.

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The Digital Money Changer

Amsterdam's Adyen has found a $50 billion opening in the thicket of online international transactions.

BY STEVEN BERTONI

Five of Uber's top ten cities by ride count are now in China. Airbnb already books a majority of its nights (70%) outside the U.S. Netflix turned on service in 130 new countries just a few weeks ago.

What these globalizing Web firms have in common is the headache of collecting money in local currency. Vast swaths of the digital payments network are still held together by a patchwork of rickety, brittle and random code. Payments drop, systems crash. The mess of platforms and intermediaries makes launching into a new country and currency time-consuming and costly.

That complexity is Pieter Van der Does' margin. The CEO of Adyen runs one of the fastest-growing firms in the $1.6 trillion e-commerce industry. Not many people have heard about Adyen, but it has carved out a powerful place by laying down smooth payment rails all over the world for the biggest names in tech: Facebook, Netflix, Spotify, Airbnb, Uber. Van der Does started the privately held Dutch company in 2006 with fellow payments vet Arnout Schuijff, spotting the need well in advance. "We are building the most horrible thing to compete with," he says.

Adyen can handle 250 payment methods and 187 currencies, more than some of the big incumbents such as Chase Paymentech, WorldPay and GlobalCollect. Competitor Stripe, a fast grower in mobile, is in only 23 countries and 139 currencies. Breadth matters in global commerce. Americans may be addicted to credit cards, but Asians like to pay with their phone bill. Germans and the Dutch use bank debit cards. In underbanked regions like the Philippines and Brazil people exchange cash for bar-coded cards to make purchases online. "Adyen isn't burdened by legacy infrastructure," says Aaron Goldman, a partner at venture firm General Atlantic, which led a $250 million investment in Adyen in 2014. "It's a straight tube—like the autobahn."

Adyen doubled its transaction volume last year to $50 billion, while net revenue grew a "mere" 89% to $350 million, due to conver-

We'll take yuan: Adyen CEO Peter Van der Does chucked the corporate life ten years ago. He named his startup after the Surinamese word for new beginning.

sion from a weak euro. While Adyen's fees fall with volume, the company grosses less than 1% of every dollar processed, far below the 2% to 3% that Square, PayPal and Stripe make. This is why Adyen has lower revenue than Stripe does (an estimated $450 million last year) on twice the payment volume. It's not a knock against Adyen: The company made a profit of $45 million in 2005 and has been in the black for five years straight—a rare thing among unicorns. The companies are in different segments of the market. Adyen caters to big, international operations while Stripe targets the startup app developer community, making up for lower volume by charging a slightly higher margin.

If you've read this far, we salute you. Payments are a dry business, but one that is raking in the investment dollars. One-third of financial tech unicorns are focused on payments, according to Finovate. Adyen itself has raised $270 million and has a $2.3 billion valuation. Its investors include Index Ventures, Felicis, Temasek and Iconiq Capital, which runs money for Mark Zuckerberg and Reid Hoffman. Stripe, founded by precocious Under 30 brothers Patrick and John Collison, raised $100 million last summer ($290 million total to date) and is worth $5 billion. PayPal, spun off from eBay in July, has held its own in a rotten market at $40 billion.

Adyen's roots go back 20 years to when Van der Does met his future cofounders at a Dutch payments startup called Bibit. Van der Does' path to the payment world was far from direct. A native of Amsterdam, he alternated undergraduate stints at Clark University in Massachusetts, the Sorbonne in Paris and the University of Amsterdam with long breaks in between to climb mountains in the Alps, Scotland and Patagonia. After graduation he worked at Dutch bank ING and scientific publisher Elsevier: "My fears that the working world was really dull came true." In 1999 a friend introduced him to Bibit, a startup that helped technology companies and airlines accept money on the Web. He joined the sales team and eventually became the chief commercial officer, focusing on sales, p.r. and legal.

PHILIP JINTES, AMSTERDAM FOR FORBES

Royal Bank of Scotland acquired Bibit for $100 million in 2004, a good payday, but Van der Does was left frustrated: "It was like building a race car and selling it before you could drive it on the track." The day his lockup ended two years later he e-mailed his Bibit crew about launching something new. "Competitors were getting off too easily," he says. "So much fintech innovation was simply adding a new layer on top of old technology. No one was attacking the old rails."

The name "Adyen" is Surinamese for new beginning, and that mentality became its secret weapon. "It was Bibit without legacy employees, customers and technology." Schuijff, who built the Bibit platform, began hiring a corps of software developers who spent the next year erecting a fast cloud platform out of the latest open source tools. Hooks were built into it to make adding new currencies and payment methods a painless step.

For global companies more payment methods translate into more sales. "We want to provide a localized experience and give people their preferred payment options," says Airbnb's payment boss, Kapil Mokhat. "Instead of building direct integrations to each payment method, we have Adyen." Spotify, which uses Adyen for a majority of its international markets, saw its checkout conversion nearly double. Evernote, which does 70% of its business outside the U.S., went through its global expansion early. It took three months of work to process yen using standard payment integration. Says Nancy Magee, director of commerce at Evernote, "With Adyen we opened 30 currencies in two weeks."

Adyen's next move is into physical stores. Its new terminals are in use at stores run by Inditex (owner of Zara), Lacoste, Crocs and O'Neill. Zara is interested because Adyen terminals mean one platform for purchases on mobile, desktop and physical stores, which makes it easier to deter fraud and offer loyalty points and real-time discounts at checkout. Massive incumbents like Chase Paymentech, Vantiv and First Data won't give up ground easily. Van der Does thinks they will. "They're traditional with multiple platforms and are stuck in what they can do," he says. "We're a true IT company and have the freedom to move and innovate." *

FINAL THOUGHT

* *"Where there is commerce, there is peace."* —**JEFFREY TUCKER**

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PICTURE PERFECT

There are flat screens, and then there are *flat* screens. LG's new "Signature" 65G6P television (lg.com), which debuted at last month's Consumer Electronics Show in Las Vegas, is very much the latter: Mounted on glass and less than 3 millimeters deep, this 65-inch wonder is almost impossibly beautiful. Those gorgeous looks aren't just skin-deep, either: The Signature's 4K-resolution screen employs the latest high-dynamic range and OLED technologies—that's "organic" LED, which boasts shatteringly crisp color and depth—for the finest picture quality ever seen on a home television. —*John Archer*

Nothing Happens Until Somebody Cries

For George Cloutier and his team of small-business turnaround consultants, the problem is rarely the diagnosis; it's getting the owner to take action.

BY PETER CARBONARA

George Cloutier didn't become the biggest and best-known small-business turnaround artist in America by being nice. "We are very confrontational," Cloutier says with his Cheshire cat smile. "We are professionally confrontational."

Thirty years ago Cloutier, 69, founded American Management Services on a simple insight: Many small-business owners have no idea what they are doing and need someone to tell them so to their faces. Cloutier, the son of a Maine grocer, first realized this as a Harvard College and Harvard Business School student, working part-time for a variety of local businesses.

The ideas Cloutier has preached ever since, particularly in his 2009 book, *Profits Aren't Everything, They're the Only Thing,* are pretty commonsensical, not to mention decidedly old school: Watch cash flow like a hawk, pay yourself first, reward employees for performance only, cut costs viciously, sell constantly. "It's easy to find and diagnose the problems of small businesses," Cloutier says. "The problem is getting management to implement the solution." As he has often joked, "Nothing happens until somebody cries."

AMS' secret sauce is not the message—it's the blunt way it's delivered. "They just beat you from one end of the room to the other," says Chuck Sprovieri, who hired AMS in 2010 to rescue the then floundering custom kitchen and bathroom counter business he and his brother bought from their father. "It's a cold slap in the face. It isn't to everyone's taste—to the point that my brother was really offended. They'd tell us things like 'You've got employees who've been with you for 30 years. Are you ready to fire them if we tell you you need to?' "

Sprovieri was, and he did. He also took AMS' advice and adopted a policy of pay tied to specific business targets for all employees: "We implemented total accountability across the board. There was some pushing back. It was rough." Sprovieri also fired as many as 10% of his customers, the especially demanding or time-consuming ones he wasn't making money on: "AMS ranks all your accounts: A, B, C and D. The D stands for 'Duh, what the hell are you doing?' "

The price tag for the haranguing and hand-holding was $260,000. As Cloutier says, "We're not the cheapest guys in the world." Sprovieri says he had no idea where he was going to get that kind of money—but AMS did. "The first thing they work on is your cash flow," he says, "and the reason is they want to know they are going to get paid. They said, 'Chuck, you'll get it back in three years.' At the end of year one I got it back." Five years later, Sprovieri says his annual sales have doubled to $20 million, and his profit margin has increased from the low single digits to more than 10%.

At least 60% of AMS' customers are family businesses, says Chris Mosca, a vice president: "Our typical client is a nice family in a crappy situation." AMS does best, Cloutier says, following an economic downturn, in the months after the bottom but before the economy has really recovered. In 2015 AMS grossed $14 million. While there are countless individual small-business consultants around the country, Cloutier says, he currently has no direct competitors.

Nonetheless, like most of the companies it advises, AMS has to fight for every nickel. It too is a small company, and it's run according to the same tough-love rules it preaches. Cloutier is semiretired and rarely visits the

SONYA REVELL FOR FORBES

George Cloutier (right) started the business, and Lou Mosca runs it: "Nobody wants to talk to us. Nobody."

Orlando office, but he scrutinizes AMS' flash financial reports every day and is on the phone regularly with Lou Mosca, Chris' brother and AMS' chief operating officer, who runs the business day to day.

Keeping consultants is a constant challenge. Cloutier pays them well—top performers can make as much as $300,000—but only out of what they collect from clients. It's a high-stress, high-turnover job involving lots of travel. Numerous AMS consultants have struck out on their own. "We've had 30 years of people leaving us and failing," Cloutier sniffs. He's also made his share of hiring mistakes. One senior salesman was a former insurance company executive who went to federal prison in 2007 for running a $4 million Ponzi scheme. (His victims were not AMS clients.)

The other big challenge is finding new business. That responsibility falls to Lou Mosca, a transplanted New Yorker who could be cast as the gruff but fair senior detective in any TV cop show. His go-to metaphor for most aspects of business, including sales, is battle: "Nobody calls us to ask for our services. Nobody. Nobody wants to talk to us. Nobody. It's a virtual fistfight every time."

The business they do get comes from telemarketing. AMS buys lists of small companies from Dun & Bradstreet and targets owners with cold calls from a call center in Orlando. Cloutier started the business in Massachusetts but moved it to Florida in 2002, partly so he could live in Palm Beach, near other wealthy friends from Boston, and partly for the abundance of telemarketers who'd been trained by the time-share companies and hotel chains that have operations near Orlando. Mosca estimates that one of every thousand calls results in a meeting.

The AMS telemarketers say they are calling from Partner America, a program of small-business seminars and presentations that AMS runs in conjunction with the United States Conference of Mayors. "It gives us a foot in the door," says Lou Mosca.

On a recent gray Tuesday morning Mosca is in his corner office on the ground floor of an industrial park in Orlando. He has a collection of New York Yankees hats on top of one bookshelf. On a wall facing his desk are two flat-screen TVs—one showing CNN, another showing several black-and-white views of AMS' telemarketing operation down the hall. The call center typically has 30 to 40 people working the phones.

Mosca is on speakerphone with a representative in the field, who is trying to close a sale with a family-owned manufacturing company beset by weak cash flow and intergenerational drama. The representative has just finished the diagnosis of the company's finances and operations, a service AMS offers for $700, money back if you're not satisfied. ("You'd be amazed how many people ask for their money back," Mosca says.) Usually this review takes somewhere between one and two weeks. Now he's trying to sell the family on retaining AMS to fix things, which could take months. But he's not optimistic; the family patriarch has heard the rep's findings but hasn't committed. And the matriarch hasn't agreed to see him.

Mosca advises the consultant to drop in on the matriarch at home later in the day. He also recommends going over the list of cash-flow, sales and profit problems one more time. "Show him the list," Mosca says. "The list is to overwhelm him." It's not unlike an intervention with a drug addict. "Our sales process is built on slapping them in the face," Mosca says. What he is really trying to sell besieged owners, he says, is peace of mind. "I will give you a better quality of life," he says. But the owners have to want to change, and not all of them do.

A few minutes later Mosca has the patriarch and one of his sons on Skype. Mosca asks them how they're doing. "Great," they say. Slouching in his chair the patriarch looks as if he's been summoned to the principal's office. Mosca asks if they have any questions. They say no. The patriarch offers, "We've got a lot of work to do after your consultant leaves." And that's enough for Mosca, who knows where the conversation is headed and wastes little time getting off the call.

"He's not going to buy," he says.

FINAL THOUGHT

"The truth which makes men free is for the most part the truth which men prefer not hear." —HERBERT SEBASTIAN AGAR

MARGIN PROPHET

GETTING THE WORD OUT

WILLIAM VANDERBLOEMEN IS FOUNDER AND CEO OF VANDERBLOEMEN SEARCH GROUP, A HOUSTON-BASED EXECUTIVE SEARCH FIRM THAT WORKS WITH CHURCHES AND FAITH-BASED ORGANIZATIONS. HE SAYS CONTENT MARKETING IS A SAVING GRACE.

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DAVID YELLEN FOR FORBES

A Piece of the Action

Entrepreneurs are aiming to turn lawsuits into a new asset class.

BY DANIEL FISHER

With investors starved for yield and unnerved by volatility, Mighty Group Inc. offers a tantalizing proposition: earn 25% to 30% interest on an asset that has zero correlation with anything else in your portfolio.

The catch? Mighty lends money to plaintiffs in personal injury lawsuits. You collect only if they do. Plus, the head of this online electronic investment platform recommends that only personal-injury lawyers, or investors who have such lawyers helping them evaluate cases, plunk down their money at this early stage.

"We are not a platform for gambling on cases," warns Mighty's CEO and cofounder, Joshua Schwadron, 34, an Emory University law school grad who runs the 21-employee firm out of industrial-chic offices on the edges of New York City's financial district. "In order to properly understand these investments, you have to have legal expertise. We don't want people throwing darts."

Not yet, anyway. Schwadron's ambition is to generate enough data about the risk and returns of lending small amounts of money to plaintiffs in personal injury suits to turn litigation finance into a respectable alternative investment—one predictable and large

Peer to plaintiff: Joshua Schwadron's platform, Mighty, connects investors with claimants needing immediate cash.

enough to draw affluent investors who don't chase ambulances for a living. Right now such loans are made mostly by small local outfits operating in the shadows.

Schwadron's dream isn't so far-fetched. The potential market is sizable; in 2014 insurance companies paid out more than $140 billion for lawsuits, including $72 billion for car accidents alone, according to financial industry analyst SNL Financial, a unit of McGraw Hill Financial based in Charlottesville, Va. And there's precedent in peer-to-peer lending sites like Lending Club and Prosper, which make small unsecured personal loans and were also once considered iffy. Now those sites are dominated by institutional investors; individuals seeking yield can invest in packages of peer-to-peer loans, and new venture-capital-backed lenders like Earnest are using novel data sources and algorithms to lend online.

Schwadron, who fashions himself a crusader as well as an entrepreneur, invokes legal academics like Anthony Sebok of Yeshiva University's Cardozo law school, who contends insurance companies have too much bargaining power. Lending money to individual plaintiffs, the argument goes, allows them to hold out for fatter settlements.

Plaintiffs "need to pay rent, they need to buy food," says Mighty board member Roger Ehrenberg of IA Ventures, one of ten investors (including Tribeca Venture Partners) that last September pumped $5.25 million into Mighty. "They've got a money-good claim against an insurance company, and oftentimes those claims take a long time to settle."

But is lending to plaintiffs at high rates really doing them a service? Schwadron answers that Mighty does its best for plaintiffs by running an electronic Dutch auction, where the bidder who is willing to accept the lowest rate wins the deal, which Mighty refers to as an investment, not a loan.

True, with transactions running more than 100 a month since Mighty's official launch in September, rates are mostly above 30%. But that will come down, Schwadron predicts: "I believe in a future where financing for this sort of asset will be so easy and so ubiquitous and so inexpensive the market will not just be for [plaintiffs] who are desperate."

Wait a minute. Is investing in legal claims even kosher? Ethics rules in the U.S. prohibit lawyers from sharing fees with nonattorney investors, and in many states plaintiffs are barred from selling their claims outright. But where there's a yield there's a way. Most legal financing deals are structured as loans, not sales, with complex waterfall structures in which investors get different returns depending on how quickly a case settles and for how much. Mighty is unusual in that its financing carries a single interest rate determined by the auction process.

Still, there's some murkiness here. For example, the Colorado Supreme Court ruled last November that lawsuit loans must comply with the state's consumer lending laws, potentially limiting returns.

Then there's the whole business of collecting; a plaintiff could win but stiff his lenders. In one Pennsylvania case, Oasis Legal Finance, a Chicago lender, extended $60,000 to an injured worker only to find out he'd borrowed $67,500 from five other companies against the same case, with all six loans ballooning to more than $400,000 with interest, barely payable after subtracting fees from his $600,000 settlement. The lenders challenged his bankruptcy in 2007 and settled on undisclosed terms. Mighty attempts to head off such problems by requiring all borrowers to be represented by a lawyer and to disclose any other financing they've taken.

While Mighty isn't the only new

Five Ways to Play

UNTIL RECENTLY, ADDING LAWSUITS TO YOUR PORTFOLIO USUALLY MEANT GETTING IN THROUGH A HEDGE FUND. NOW THERE ARE NEW WAYS TO INVEST.

BURFORD CAPITAL Trading as BUR on the London Stock Exchange's AIM[1], it has invested more than $600 million in commercial lawsuits in the U.K., the U.S. and other countries. At a recent share price of $314, BUR has a market cap of $640 million.

JURIDICA INVESTMENTS Trading as JIL, also on the LSE AIM, this closed-end lawsuit investment fund is not making new investments. It trades at $61, with a market cap of $67 million.

LEXSHARES.COM SEC-accredited investors[2] can put money directly into midsize commercial lawsuits, with a minimum investment of $2,500 per case. Cases are described but not named.

MIGHTY.COM Accredited investors bid in online Dutch auctions to make loans to personal injury plaintiffs. The site suggests that nonlawyers who want to bid get an attorney advisor.

VINSON LITIGATION FINANCE Takes investments offline from accredited investors, with a $500,000 minimum.

[1]U.S. investors can buy shares on the LSE-AIM through big brokerages by signing up for international trading.
[2]SEC-accredited investors have net assets (excluding a home) of $1 million or more, or at least $200,000 in annual income.

GO, CONSIDER, STOP

SECURITY COUNSEL

TOM FORESTER WAS AMONG THE FEW TO MAKE MONEY IN 2008, WHEN HIS $100 MILLION FORESTER VALUE FUND EKED OUT A GAIN AMID CRISIS. NOW, WITH GLOBAL GROWTH YOKED TO TUMULTUOUS CHINA, HE OFFERS IDEAS FOR THE CONSERVATIVE INVESTOR.

SPECTRA ENERGY

Pipeline operator provides natural gas to New York and New England. Has little exposure to commodity prices, but you'd never know it given its sliding stock. A 7% dividend yield means limited downside, even if a warm Northeast winter pinches profits.

PFIZER

Merger with Allergan and potential gains from new drugs mean it should be priced like a growth pharma company. That doesn't mean a double, but its middle-of-the-pack multiple (14 times earnings) could expand a bit.

GENERAL MOTORS

Very cheap on an earnings basis—just six times 2016 estimates—but China was its biggest growth story. Meanwhile, auto financing has likely peaked in the U.S. If sales slow, GM will have to offer discounts or cut production.

entrant aiming to turn litigation into an asset class, other players are concentrating on commercial litigation. New York-based LexShares, launched in late 2014, allows SEC-accredited investors (those with net investable assets of $1 million or more, or $200,000 a year in annual income) to invest as little as $2,500 in individual commercial lawsuits by clicking on cases. (All the suits, it says, have been screened by legal experts.)

Los Angeles-based Vinson Litigation Finance, launched in 2012, uses the predictive software of Donald Vinson, a pioneer in the technique of jury research, to handicap commercial cases for investment. It is open to accredited investors ready to plunk down at least $500,000.

Chicago's Gerchen Keller Capital, which claims to be the largest player in litigation finance, was launched in 2013 and already manages $1.4 billion for institutions, hedge funds and the family offices of the rich. New York's Parabellum Capital, formed in 2006 by two veterans of a disbanded Credit Suisse litigation investing team, manages more than $100 million for institutions and wealthy families.

One of the easiest ways for the average investor to play now is by buying the stock of Burford Capital, which trades on the London Stock Exchange's AIM. Christopher Bogart, the 50-year-old founder of Burford, is a former general counsel for Time Warner and former CEO of its cable ventures unit. After leaving Time Warner in 2003, he began managing venture capital money (for the billionaire Lauder family, among others) and decided to raise a few million to dabble in legal financing, too.

"It was a hobby for me. I had no intention of making it into a business," Bogart says over lunch at the Sleepy Hollow Country Club, housed in a Gilded Age mansion overlooking the Hudson River in Westchester County, N.Y.

But then came the 2007 financial crisis and, at exactly the wrong time, a seemingly coordinated move by corporate lawyers to push their top rates over $1,000 an hour. Companies balked, and law firms started referring clients to guys like Bogart to finance their cases, which can cost millions of dollars, including expert witness fees. His hobby turned into a real business.

Bogart took Burford public in 2009. So far it has cumulatively invested more than $600 million in commercial lawsuits in the U.K., the U.S., Germany and other countries. Its stock is up 80% over the past 12 months (giving it a market cap of $640 million) as it has reported eye-catching results. Those include a $25 million investment (funded in stages starting in 2012) that returned $61 million last year, for a $36 million profit.

It's not just the sexy paydays that are drawing sophisticated investors to litigation finance. The big selling point, Bogart notes, is that the return doesn't depend on macroeconomic conditions or how hot the market for initial public offerings happens to be. "I don't have to do anything to create an exit," he says.

But while the profits aren't correlated with the economy or the stock market, litigation financing is hardly low risk. In fact, lawsuits can make prospecting for oil look predictable, since seemingly unrelated variables like the location of the court or the biases of the judge can play a critical role in how a case might turn out.

Last year Juridica Investments, a closed-end fund also listed on the LSE AIM, stopped making new investments after taking a $34 million writedown on "Case 8008-L" (like Burford, it doesn't identify the parties in its lawsuits), which suffered a critical courtroom loss. The writedown exposed the concentrated risks taken by the fund, started by U.S. corporate litigator Richard Fields; it had $90 million invested in just six lawsuits.

Bogart, for his part, is now working with select law firms to create pools of suits, sort of like collateralized loan obligations, to diversify risk and make the payouts more predictable.

But even Burford has had its unpredictable losses. "We lost a case because one of the key witnesses turned out to be delinquent on his child support," Bogart says. Turns out the arbitrator hearing the commercial dispute had a thing about deadbeat dads. *

FINAL THOUGHT

"I have come to regard the law courts not as a cathedral but rather as a casino." —**RICHARD INGRAMS**

TRENDING

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PERSON
HOWARD SCHULTZ
What China crash? Schultz's Starbucks plans to open 1,400 more stores in the Middle Kingdom by 2019.

IDEA
SLIDING DOWN THE OIL SLICK
With commodity prices sinking past even their 2008 lows, bankruptcies in the energy sector can't be too far behind.

CHINA: LAND OF THE SETTING SUN

THE CURRENT TURMOIL on China's stock exchanges and in its economy are shaking markets globally. It's not surprising. After more than two decades of rapid growth China's GDP represents nearly 60% of U.S. GDP, and it is the world's second-largest economy. The Chinese have reveled in the widespread conviction that, with recent sluggish growth in North America and Europe, China was inheriting the mantle of global economic leadership. Indeed, many observers were counting on that growth spilling over to the West.

But suddenly China's economic leadership seems to be shifting into reverse. Like virtually all developing economies, China depends on exports. But with slow-growing Western economies the rate of annual export growth in China has gone from 20% to 30% in the 2000s to a recent decline of 7% last November. Also, globalization—the transfer of manufacturing and other production from the West to China and other emerging economies—is largely completed.

The weakness in China has been masked by its massive housing and infrastructure investments. But even these are dubious. Witness China's ghost cities, rampant excess capacity and the fact that total corporate, government and household debt has leaped from 121% of GDP in 2000 to 282% in 2014. Another telltale sign of trouble? GDP per capita in 2014 was just $7,590, or merely 14% of America's.

CHINA WONT SHRIVEL UP, BUT LIKE JAPAN, ITS IMPORTANCE WILL SHRINK

China's leaders want to shift to a domestic-led economy, driven by consumer spending and services, but whenever overall growth lags they resort to the same old infrastructure spending. The result is even more excess capacity and more power for the inefficient state-owned enterprises, which are never allowed to fail. Meanwhile, private firms are starved for capital. These actions reveal Beijing's distrust of free markets. Consumer spending in China is just 36% of GDP. In India it's 59%, Italy, 61%, and in the U.S., 69%.

China is a giant in global manufacturing but is amateurish financially. Last summer the government clumsily intervened to arrest the one-third drop in Chinese stocks after hyping equities as the way to recapitalize debt-laden SOEs. Short-selling was prohibited and brokers and state-owned enterprises ordered to buy stocks. As scared investors traded yuan for dollars to ship overseas, foreign currency reserves fell by $300 billion. Then, in an attempt to spur exports and revive economic growth (which is probably half China's stated 6.9% rate), there was a currency devaluation.

Chinese officials seem to want more of a free market but insist on top-down control. It doesn't work. Recently instituted circuit breakers to protect investors from massive selloffs, for example, backfired after the limit was hit twice in the first week and skittish retail investors dumped stocks. Similarly, official attempts to weaken the yuan to spur exports resulted in a stampede out of the Chinese currency and forced the central bank to reverse gears.

China won't shrivel up and die, but as it shifts from commodity-munching exports, housing and infrastructure to consumer spending and services, China's global importance will shrink. This happened to Japan starting in the early 1990s. Before that, many Americans thought they'd soon be working for Japanese companies or be run out of business by them. But in 1990 Japan's stock market bubble collapsed, as did overblown house prices, and the economy fell into an ongoing era of 1% real GDP growth and deflation.

Similarly, Chinese stocks went off the cliff last summer, and residential housing activity has nose-dived. Just as Japan put off cleaning up its "zombie" banks, China will delay restructuring its bloated SOEs. You may also remember Japan's buying spree aimed at trophy properties and at securing raw materials for its manufacturing juggernaut and markets for its output. History shows that Japan lacked growth-spurring investment opportunities at home. Think Midwest farmland, Pebble Beach and Rockefeller Center. Have you noticed that China has been on a foreign buying spree? Lastly, there are also demographic similarities. Both countries have declining workforces, but, unlike Japan, China will get old before it gets rich. F

THOMAS KUHLENBECK FOR FORBES

A. GARY SHILLING IS PRESIDENT OF A. GARY SHILLING & CO. AND AUTHOR OF *THE AGE OF DELEVERAGING: INVESTMENT STRATEGIES FOR A DECADE OF SLOW GROWTH AND DEFLATION* (JOHN WILEY & SONS, 2011). WWW.FORBES.COM/SHILLING.

HIGH YIELD ON SALE

THE HEFTY DISTRIBUTION on **WELLS FARGO GLOBAL DIVIDEND OPPORTUNITY (EOD, 5.57)**, currently 72 cents a year, is just part of my reason for recommending it. Equally important is that this closed-end is trading at a discount. With it you get a dollar of portfolio value for only 84 cents.

Closed-ends are an oddity in an investment world dominated by open-end and exchange-traded funds. Those have exit ramps; a customer who wants out gets paid a sum equal to (or very close to) the value of a pro rata share of the portfolio. Closed-ends, in contrast, don't redeem shares, and so a departing investor has to hunt around for a willing buyer. The price offered may be disappointing.

The original buyers of the Wells Fargo fund paid $20 a share in 2007. Did these poor innocents not understand that closed-end shares are like cars? Your new Corvette instantly loses 5% of its value as you drive it off the lot because now it's a used car. In like fashion, the average closed-end fund was trading in December at a 9% discount to its portfolio value.

Wells Fargo's investment vehicle sure looks like a lemon. Its preferreds got beat up last year along with the junk bond market. Its stakes in Deutsche Post and Vivendi are suffering from a strong dollar and a weak European economy. Its habit of paying out more than its earnings has shriveled the asset base.

FUND OBJECTIVE: HIGH PAYOUT COMBINED WITH BIG DISCOUNT

Anxious to put these challenges behind them, EOD's shareholders are prepared to unload at a sacrifice, a 16% discount to the depressed portfolio value. Their loss is your gain.

Two other factors are just as important as the discount in making a closed-end into a bargain. One is the yield. That should be high. The other is the overhead cost. That should be low.

Without a payout of cash from a fund, a discount doesn't do you any good. Consider Central Fund of Canada, a collection of gold and silver bullion. Its yield is microscopic. The fund is trading at a discount, but there is no reason to expect the discount to narrow. If the discount stays put, the fund's return will be the same as you would have had on the metal, not counting expenses. So there is no particular reason to own the fund.

But what about a discounted fund that disburses cash? If you buy the fund for 84 cents on the dollar, then you are thrilled to have a $100 dividend check show up in your mailbox. It gives you an instant $16 profit.

EOD's quarterly dividends amount, on an annual basis, to just under 11% of the portfolio value. Multiply this payout rate by the discount and you get a boost of 1.7 percentage points to your annual return. It doesn't matter a whit that the fund is disbursing more than the interest and dividends it takes in. It matters only that your discounted shares are being converted into folding money.

Then there is the fund's plan to buy in up to 10% of its shares in the open market. If it follows through that will jack up your return, too, even if no narrowing of the discount results. A 10% buy-in is almost as powerful as the distribution, via dividend checks, of 10% of the portfolio.

As for management costs, EOD's annual expense ratio is tolerable at 1.1% of assets.

I trolled through Morningstar's database looking for other funds with high payouts, high discounts and acceptably low overhead. There are precious few. Among them are **ALLIANZGI CONVERTIBLE & INCOME (NCV, 5.30)** and **CONVERTIBLE & INCOME II (NCZ, 4.69)**. Ingest in small doses: These are high-risk, junky portfolios.

If you want to do your own hunting, use this formula: Multiply the discount by the yield. If that product is comfortably more than the expense ratio, then the fund is a worth a look. If it's less, the discount just isn't making up for the damage caused by fund fees. The vast majority of closed-ends are no bargain, even at 9% off the sticker price.

Retrospective: My 2015 column picks, dragged down by an inopportune affection for resource stocks, would have lost you 4.3%, five points worse than the market. For 2016 I'm keeping only the funds. F

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THOMAS KUHLENBECK FOR FORBES

DOUBLING DOWN ON INDUSTRIALS

THERE ARE SOME businesses I might never really understand, which doesn't bother me at all. Some companies seem too complicated or overly risky, or operate in industries where it is tough to get an edge. On the other hand, when I am interested in an area, I seek to know everything about it. Therefore, when I know an industry well, I feel confident when valuations get cheap. Moreover, my conviction actually goes up when familiar stocks go down—so long as their fundamentals look solid. When that happens, building bigger positions becomes easier, a wonderful formula for maximizing returns.

For instance, specialized industrial companies fall within my circle of competence, and plenty of them were hit in 2015 due to global concerns of an economic slowdown. Some, of course, went down more than others. Many industrials tangentially related to the energy sector have been crushed—as if the values of their businesses go down whenever oil prices drop. The market's view toward some of them is just plain wrong. As a value investor I care about the difference between price and value, not the difference between today's price and one three months ago.

Take helicopter-services company **BRISTOW (BRS, 20)**, which fell 60% in 2015. Bristow's main business is transporting oil workers to offshore rigs. Given the oil and gas connection, some investors are quick to hit the sell button when oil prices fall. And yet most of the company's operating income comes from a monthly "standing" charge—whereby helicopters must be at the ready in the event of trouble. Besides, at its current stock price, the company's helicopter fleet is worth more than the value of the whole company. The shares have a forward P/E ratio of just eight.

THE STOCKS HAVE BEEN CRUSHED. THE MARKET IS JUST PLAIN WRONG

U.S. SILICA (SLCA, 16) produces and distributes silica—an industrial sand product used in hydraulic fracking and other operations. The company's shares fell 30% last year. Although its earnings will likely drop 80% this year, the company remains profitable and has conservative financing relative to its competition, which is leveraged and strapped for cash. Volumes are improving, and pricing pressure is stabilizing in its oil and gas segment; meanwhile, its industrial business is growing and overlooked. It's a good value at its current price/cash flow ratio of nine.

Last year I recommended **KENNAMETAL (KMT, 17)**, a maker of metalworking tools—which dropped 45% in 2015 largely because short-term end demand fell significantly. Its revenues depend on industrial production, infrastructure construction and renovation, as well as energy production—which is obviously tied to oil prices. So it's no surprise that cash flows fell in 2015. New CEO Don Nolan has a good plan to modernize the company and boost efficiency, but admittedly the lower cash flows make it more difficult to put the plan in place quickly. As you know, I am patient and think the long-term opportunity is solid, plus the stock trades at just 12 times forward earnings and only 4 times cash flow.

Of course, energy-related industrials are not the only misunderstood stocks now. Take another of my long-term holdings, **BRADY CORP. (BRC, 21)**, which specializes in identification and workplace-safety products. Its stock dropped 13% in 2015. I believe Wall Street is looking at Brady through its rearview mirror. Brady's old management team made a big, expensive move into die-cutting (essentially stamping shapes from metal). The move didn't work, so Brady sold the business and brought in new management in 2014. New CEO J. Michael Nauman is focused on profitable growth and right-sizing the business. It is trading at less than 15 times its forward cash earnings.

A somewhat similar company is tracking expert **ZEBRA TECHNOLOGIES (ZBRA, 57)**, which is down 50% from its 2015 peak. Based in Lincolnshire, Ill., Zebra helps companies keep track of their assets, a business originally built on thermal barcode printers. In 2014 Zebra expanded the scope of its offerings by acquiring Motorola's enterprise business. It now supplies ruggedized mobile computers, produces software and more. Many analysts don't like the acquisition, but revenue growth is exceeding expectations. The stock trades at less than ten times earnings. F

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THOMAS KUHLENBECK FOR FORBES

AROUND THE WORLD IN 18 WAYS

From Bhutan to the Bahamas, the most luxurious new hotels and resorts opening in 2016

ANANTARA PEACE HAVEN TANGALLE RESORT

TOP OF THE WORLD 2016

Live like George Clooney in Lake Como, escape to Fiji's hot hideaway and create your own scandal at the glamorous new Watergate Hotel.

BY ANN ABEL

SIX SENSES BHUTAN

ASILIA'S THE HIGHLANDS AT NGORONGORO


THE RITZ PARIS

This year's most exciting new hotels are all over the map. Among the many intriguing openings for 2016 are new luxury properties in far-flung locales such as Bhutan and Sri Lanka (go now, because development is happening fast and these places are likely to change forever, soon), hip hotels out to revitalize old-fashioned destinations like Palm Springs, spinoffs from beloved hotels in unlikely settings (Le Sereno in St. Barth is opening a new outpost in Lake Como) and radically reinvigorated classics like the Ritz Paris. Meanwhile, Asian luxury brands, including Six Senses and Aman, are aggressively out to expand their portfolios and raise the hospitality bar. Here's what should be on your radar for 2016.

EUROPE

Il Sereno Lago di Como, Italy

ACCLAIMED DESIGNER Patricia Urquiola is overseeing the aesthetics of this 30-suite hotel on the shore of Lake Como. Right next to the village of Torno, the hotel will be just an eight-minute drive from the center of Como but still intimate and private. The restaurant will serve simple, classic northern Italian fare with ingredients from nearby Valtellina and Piedmont. *(From $650, lesereno.com)*

Masseria Le Carrube, Italy

THIS YEAR THE FAMILY-owned San Domenico Hotels (known for Masseria San Domenico) is opening its fifth hotel, in Puglia, tucked away from the center of the whitewashed city of Ostuni—within easy reach of the main square but still blissfully quiet. Constructed out of a reclaimed *masseria* (farmhouse), the intimate hotel will have 12 rooms and 7 suites, both rustic and modern in style. The region's history is evident in the rooms' antique furnishings, a *trullo* (conical hut) in the main reception area and a 12th-century olive mill and press. In a nod to the "Italian boot heel's" bounty, the restaurant is the only vegetarian one in Puglia. *(From $150, masserialecarrubeostuni.it)*

The Ritz Paris

IN ITS 118-YEAR HISTORY the Ritz rightly became one of the world's grandest grand hotels, drawing fans like Proust, Hemingway and Coco Chanel. But amid a luxury hotel boom in Paris the Ritz faded and, in 2011, was left off the French tourism ministry's list of palace hotels. That spurred a three-year, $200 million-plus renovation by architect-designer Thierry Despont. The Ritz is finally set to reopen this spring, with the 71 pastel-hued rooms and 71 suites reimagined in a discreet classic style and the addition of a new Chanel spa, plus a reborn Ecole Ritz Escoffier cooking school. There's a returning gastronomic restaurant, L'Espadon,

AMANEMU

KOKOMO ISLAND RESORT

and the famed Hemingway Bar will also rise.
(From $1,100, ritzparis.com)

ASIA

Six Senses Bhutan

FOLLOWING THE MODEL successfully pioneered by Aman resorts, Six Senses is opening five hotels in Bhutan—in Thimphu, Punakha, Gangtey, Bumthang and Paro—to give guests a seamless circuit experience. While the new Six Senses lodges will have just 82 rooms among them, the "happiest kingdom on Earth" is set to change soon: A paved ring road that can accommodate tour buses is under construction, and three-star hotels are in the works to attract mass tourism. *(sixsenses.com)*

Anantara Peace Haven Tangalle Resort, Sri Lanka

FINALLY, THE STUNNING southern coast of Sri Lanka is getting luxury accommodations that match its natural attractions. The biggest is from Thailand-based Anantara, which knows how to deliver true luxury while maintaining a sense of place. The 152 guest rooms will include 32 villas with private pools, and the resort will have a 25-meter swimming pool, a major spa, kids' and teens' clubs, and six restaurants and bars showcasing Sri Lankan cuisine and highlighting the island's colonial customs.
(From $250, anantara.com)

Amanemu, Japan

AMAN'S FIRST HOT spring resort is set to open this spring in Ise Shima National Park in Honshu. Each of the 24 suites and four two-bedroom villas, on the shores of Ago Bay (known locally as the Bay of Pearls), will have its own mineral hot spring, as well as access to the resort's extensive spa, a Watsu pool, a gym and yoga studio, a lap pool and a Japanese restaurant and lounge. The Aman-ified version of a traditional *ryokan*, it aims to live up to its name, which means "peace" (Aman) in Sanskrit and "joy" (nemu) in Japanese.
(From $750, aman.com)

AFRICA

Leeu House and Leeu Estates, South Africa

THE NEWEST LUXURY lodgings in South African wine country, run by the people behind Mullineux & Leeu Family Wines, in partnership with Indian entrepreneur Analjit Singh, are a 12-room boutique hotel (opened in December) that is minutes away from the restaurants and galleries of Franschhoek and a 17-room retreat coming this year in a 19th-century manor house

surrounded by 170 acres of vineyards. Tastings at the Wine Studio are, of course, part of the packages. *(Leeu House from $155, Leeu Estates from $286, leeucollection.com)*

Asilia's The Highlands at Ngorongoro, Tanzania

ASILIA'S NEWEST East African camp will have a spectacular location nearly 9,000 feet high on the slopes of the Olmoti volcano, far from any other lodge but close enough to the Ngorongoro crater for guests to be there at dawn, and there'll be a stunning, contemporary design to match. The eight tented suites will take the shape of geodesic domes, with massive windows and wood-burning stoves for chilly savanna nights. The activities will go far beyond the standard crater circuit to include half- and full-day hikes, community visits and spectacular stargazing. *(From $710 per person, asiliaafrica.com)*

OCEANIA

Kokomo Island Resort, Fiji

THIS 21-VILLA HIDEAWAY is set to open this autumn on a 135-acre private island, one of ten in Kadavu's Great Astrolabe Reef. The villas will all be built beachside, come with private pools and be well-positioned for Fiji's great pleasures of scuba diving and snorkeling with manta rays. The rate includes all food and drinks, a massage, tennis, diving and other water activities. *(From $2,600, yaukuve.com)*

SOUTH AMERICA

Explora Valle Sagrado, Peru

THE INNOVATIVE luxury-adventure company Explora, which put Chile on the map with its all-inclusive, active lodges in Patagonia and the Atacama (currently rebuilding after a fire), changed the face of Latin-American adventure travel. Twenty years on, it's finally expanding beyond Chile. Sensitively built on an old Inca structure in the Sacred Valley, the accommodations will be more lavish and significantly larger than those in previous hotels (which are plenty comfortable, given that guests are generally too busy outside to spend many waking hours in them). The spa, built over the home of the original owner's mistress, will include an outdoor pool, two Jacuzzis and a Turkish bath. Explora is also offering an unprecedented two-for-one deal for bookings made before March. *(From $2,160 for three nights, explora.com)*

MEXICO AND THE CARIBBEAN

Chablé, Mexico

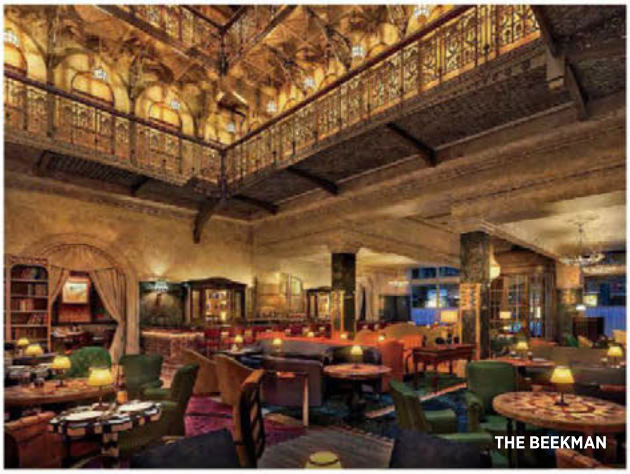
A SPA-FOCUSED HIDEAWAY in the interior of the Yucatán—near ruins like Chichen Itza and Uxmal and the faded beauty of gloriously crumbling haciendas—Chablé will include 40 stand-alone villas with private pools, a lavish spa and a farm-to-table restaurant; it also claims the world's largest tequila collection. But its most enticing feature is perhaps its own private, natural *cenote*, one of the cavernous swimming holes held sacred in the native Mayan culture—and otherworldly to explore. *(From $850, chableresort.com)*

Park Hyatt St. Kitts

PARK HYATT-STYLE comfort comes to the Caribbean. The 125 guest rooms and suites, some with large terraces, will overlook the white-sand beaches of Christophe Harbour. Some rooms will have rooftop pools with tremendous views of the volcanic island of Nevis. Guests will have access to the Tom Fazio-designed 18-hole championship golf course, a beach club and a 300-acre superyacht marina and marina village. *(stkitts.park.hyatt.com)*

Bahama House Inn

REOPENING THIS SPRING as part of the Eleven Experience collection, this historic Harbour Island hotel will more than live up to the "experience" in its new parent company's name. Along with its own private island for guests who want to play Robinson Crusoe, the daily rate will include superlative bone- and deep-sea fishing, kite boarding, scuba diving and other adventures. For an extra fee it'll helicopter you over to the renowned bonefishing waters off Abaco. *(From $1,150 per person, elevenexperience.com)*



THE BEEKMAN

PARK HYATT ST. KITTS

UNITED STATES

Four Seasons Hotel The Surf Club, Miami

FOUR SEASONS LONG ago transcended its image as a cookie-cutter brand. But for anyone who remains unconvinced, The Surf Club should set the record straight. Its origins go back to 1930, when Harvey Firestone acquired 9 acres of land for a private club that became a gathering spot for the most glamorous people of the era. Fast-forward to today: Architect Richard Meier came in to update the design of the 77-room hotel and surrounding community of 150 private residences. *(thesurfclub.com)*

V Palm Springs Hotel, California

OPENING JUST IN TIME for Coachella in April, this 140-room hotel is out to redefine high-end desert lodging. Situated near downtown Palm Springs, the hotel was designed to embrace the city's history as a Hollywood playground but also strategically deploys canny flourishes—like feathers and snake motifs—that pay homage to the native Cahuilla Indians. *(From $300, vpalmsprings.com)*

Las Alcobas, Napa Valley

LIKE ITS SISTER BOUTIQUE hotel of the same name in Mexico City's fashionable Polanco neighborhood, this 68-room resort will be designed by architects Yabu Pushelberg and managed by Starwood's Luxury Collection. The rooms and suites will have terraces and outdoor fireplaces and an enviable location in St. Helena—within walking distance of the Culinary Institute of America and the town's restaurants, galleries and boutiques. *(From $675, starwoodhotels.com)*

The Beekman, New York City

NEW YORK'S NEWEST "It" hotel is slated to open this spring in an 1881 landmark building in the Financial District with a stunning nine-story Victorian atrium and pyramidal skylight. The Beekman will be part of the stylish yet comfortable Thompson Hotels portfolio, and along with 287 well-turned-out rooms, it will have destination restaurants from Tom Colicchio and Keith McNally. *(From $619, thebeekman.com)*

The Watergate Hotel, Washington, D.C.

FOLLOWING A $125 MILLION renovation, America's most infamous hotel is on track to become a 21st-century resort. The reborn Watergate will have 336 guest rooms and suites, almost all of which have striking views of the Potomac from their private balconies. Noted designers Ron Arad and Rakel Cohen oversaw the new look, which marries the undulating 1960s architecture with classic elegance and bold midcentury-modern flourishes, and comes complete with sculptural Moroso furnishings to honor the Italian heritage imbued by original architect Luigi Moretti. Presumably, the new Watergate is also bug-free. *(From $425, thewatergatehotel.com)*


MIRANDA COSGROVE
WANTS TO KEEP
DOLPHINS SINGING
DOLPHINS USE SOUND TO FIND FOOD, TO COMMUNICATE AND LIVE.
But dolphins and their song could be blown away by seismic blasts a hundred thousand times louder than a jet engine. It could hurt and kill tens of thousands of dolphins. Join Miranda and help save the dolphins.
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OCEANA
Protecting the World's Oceans
Miranda Cosgrove swims with Atlantic spotted dolphins off Bimini, Bahamas.
© Tim Calver

Features

February 8, 2016

A view from below the figure-eight-shaped Ferris wheel attached to the Studio City casino in Macau, part of billionaire Lawrence Ho's gambling empire.
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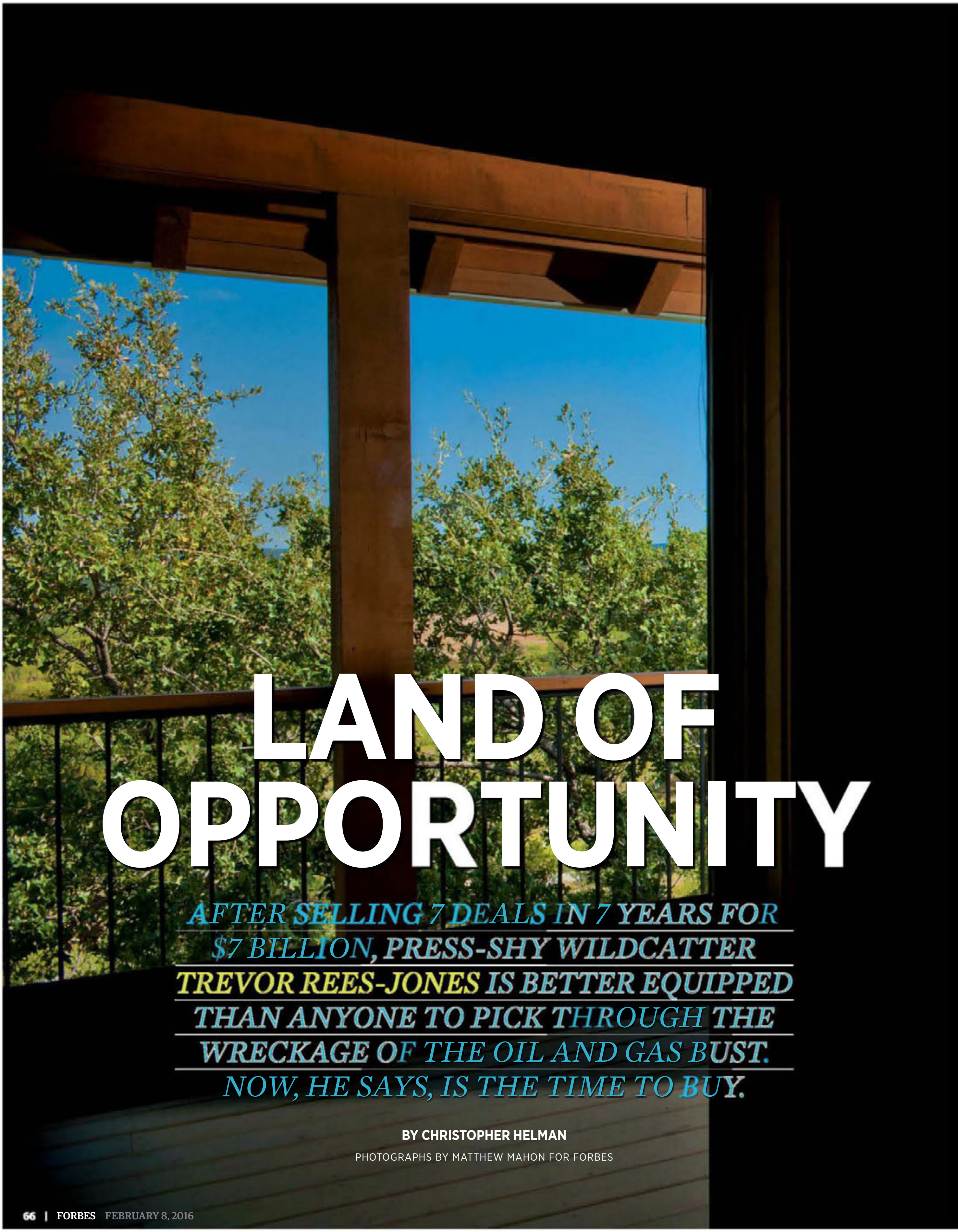


LAND OF OPPORTUNITY

AFTER SELLING 7 DEALS IN 7 YEARS FOR $7 BILLION, PRESS-SHY WILDCATTER TREVOR REES-JONES IS BETTER EQUIPPED THAN ANYONE TO PICK THROUGH THE WRECKAGE OF THE OIL AND GAS BUST. NOW, HE SAYS, IS THE TIME TO BUY.

BY CHRISTOPHER HELMAN

PHOTOGRAPHS BY MATTHEW MAHON FOR FORBES

TREVOR REES-JONES

As Trevor Rees-Jones steps down from his plane, two black labs bound out after him, followed by his wife, Jan, and her terrier. It was a short hop from Dallas to the runway at Cook Canyon Ranch, on 26,000 acres between Fort Worth and Abilene. They have a bigger ranch on 58,000 acres a little farther north, but this one is nicer. Same deal with the turbo-prop they flew in on.

"How ya doin'?" booms Rees-Jones, 64. "You like my plane? If I knew you'd be here already I'd have brought the Gulfstream 550." In voice and manner Rees-Jones is like a more garrulous version of former President George W. Bush, with whom he pals around in Dallas.

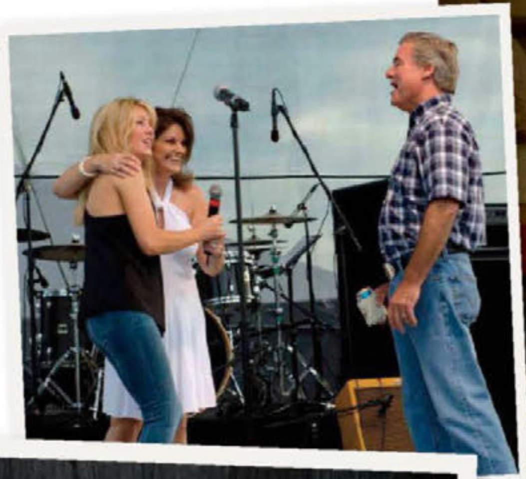
We set off in his Ford F-150 to see the sights: Longhorn cattle. Majestic oaks. Striking ravines. A beautiful horse stable that has never had a horse in it (too messy). Atop a hill he is building a castle-size "hunting lodge." He has populated a 5,200-acre section with African animals, including the antelope-like addax, aoudad sheep and zebras. A 10-foot-high fence keeps them in. We stop at his legendary Party Barn. Built from reclaimed timbers, it features a stage and a long, polished bar right out of *Lonesome Dove*. Rees-Jones charters buses to bring in hundreds of Dallas friends for concerts at the barn headlined by the likes of Faith Hill and Bon Jovi. For Rees-Jones' 60th birthday party the Eagles played, and his wife flew in actress Heather Locklear, "my longtime crush," as a surprise. "Jan got the wife-of-the-decade award," says Rees-Jones. "Unfortunately Heather had a round-trip ticket."

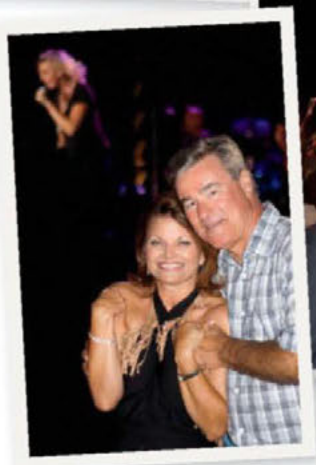
HE IS THE BIGGEST WINNER OF THE SHALE FRACKING BOOM.

The barn, built in 2008, was only the first step. "I had the Party Barn. Then I realized I needed a party patio. Then I got to thinking I might want to have bigger acts, so I had to build a party lawn over there." Sometimes things get out of hand, like when Jim Belushi and Dan Aykroyd performed as the Blues Brothers. "They loved the ranch so much I had to throw them off the next day."

Rees-Jones' rolling party is telling, since most in the energy sector aren't in a festive mood. From 2009 to 2014 frackers unlocked tens of billions of barrels of American oil, goosing domestic petroleum output from 5.5 million barrels per day to 9.6 million at a time when oil frequently traded for more than $100 a barrel. But with oil now below $35 a barrel, we're in the throes of a full-on bust: 250,000 layoffs, two dozen bankruptcies and dozens more zombie companies suffocating under huge debts they incurred to drill and frack thousands of wells. At current prices there are very few oilfields left in America where it makes economic sense to drill a new well. "Companies have been cutting off their arms to save their heads, but that only postpones the day of reckoning," says Mark Deverka, an investment banker now with JPMorgan who specializes in big energy deals. "The worst is yet to come."

So why is Rees-Jones, who has a net worth of $5.3 billion directly reliant on the oil business, celebrating? Or even talking? (Since he first appeared on The Forbes 400 in 2006, he's never spoken to FORBES.) Because while his privately held Chief Oil & Gas continues to drill and frack on 200,000 acres in northeastern Pennsylvania—from which it produces 830 million cubic feet of gas per day, more than any other privately held company—he spent most of the oil boom selling. In seven deals, encompassing oil and gas wells, pipelines and hundreds of thousands of acres of drillable land, first in the Bar-





Keeping up with the Rees-Joneses: Party Barn headliners have included ZZ Top, Faith Hill and Jon Bon Jovi. Heather Locklear is the one who got away.

LEFT PAGE: COURTESY OF TREVOR REES-JONES

nett shale field near Fort Worth and then the Marcellus shale of Pennsylvania, he grossed $7 billion. That figure makes him the biggest winner of the shale fracking boom. "He's like General George Patton. He's brash and opinionated, and he leads by example but with a big heart," says Deverka.

And that figure also makes this former bankruptcy attorney the most potent—and dangerous—American energy entrepreneur right now and someone whose story is worth telling for the first time. Surveying the current scene, Rees-Jones sees it this way: "I'm licking my chops."

GROWING UP IN THE UNIVERSITY Park section of Dallas, Rees-Jones (a Welsh name he shares with Princess Diana's bodyguard on the night of her fatal car crash) got his start catching tadpoles and birds and selling them to neighborhood kids. "If the tadpole had just a tail I sold 'em for a penny. And if it had sprouted its back legs it was three cents. And if it had all four it was a nickel." Rees-Jones' mom ended his bird business after he sold a cardinal for a quarter to a kid who wanted a refund after his new pet flew away. He graduated from Dartmouth in 1973 and then law school at Southern Methodist University, becoming an attorney specializing in bankruptcy. "I just couldn't stand being a lawyer," he says. "I found myself bored to death by the legal aspects. But I was fascinated by the oil and gas business—putting deals and prospects together."

In 1984 he parlayed $4,000 into a $48,000 line of credit at Republic National Bank. A decade-long rollercoaster ride followed, as Rees-Jones scraped by from deal to deal, drilling hundreds of wells across Texas. At his low point he drilled 17 dry holes in a row. "There was one time we drilled a dry hole, and I got the call in my office. Typically I would call my investors to get the bad news out. But I just couldn't bear it. I was so despondent and depressed that I walked across the street and saw *E.T.* and called them the next day." He can laugh about it now, but it wasn't funny at the time. "Jan would get her pencils and help color the maps I took to investors. Green for oil and red for natural gas." Jan Rees-Jones remembers when business got bad enough that they canceled cable TV and call waiting: "Trevor would just pore over the real estate ads looking at ranchland for sale, dreaming."

Once his two sons came along, Rees-Jones tried to dial down the risk, and in 1994 he and four partners started Chief Oil & Gas with the intent of "picking the meat off the bones" in conventional gas fields north of Fort Worth that had been developed by pioneering wildcatter and billionaire George Mitchell. Rees-Jones had long been watching Mitch-

ell. Backed in part with funding from the Department of Energy, his Mitchell Energy & Development was experimenting with drilling techniques. Mitchell's breakthrough was to combine the brand-new trick of horizontal drilling with the older practice of hydraulic fracturing (blasting a high-pressure concoction of water, sand and chemicals down wells to break up rock to release oil and gas). Fracking is much older than most people realize—dating back to the 1950s. The combo had never been done before Mitchell applied it to the Barnett shale, a mile-and-a-half-deep "source rock" out of which oil and gas had migrated over millions of years to fill up the shallower reservoirs around Fort Worth.

Rees-Jones soon replicated Mitchell's techniques and began fracking the Barnett in earnest in 2000. Suddenly every well he drilled was a success. "It was amazing to watch him bat a thousand after years of struggling to hit .150," says Chris Cowan of Texas Capital Bank, his banker. "Sometimes the Lord just decides, 'You're the guy.' "

At the time Rees-Jones thought it might be a fluke. "I wish I could tell you that I had a crystal ball, but I didn't," he says. Tony Carvalho, Rees-Jones' longtime head geologist, says, "We always thought the field would end just down the road, but it just kept going. How slow we were to figure out the implications." Today the implications are clear: America's proven reserves of oil and gas have doubled, while prices have fallen enough to save Americans more than $150 billion a year.

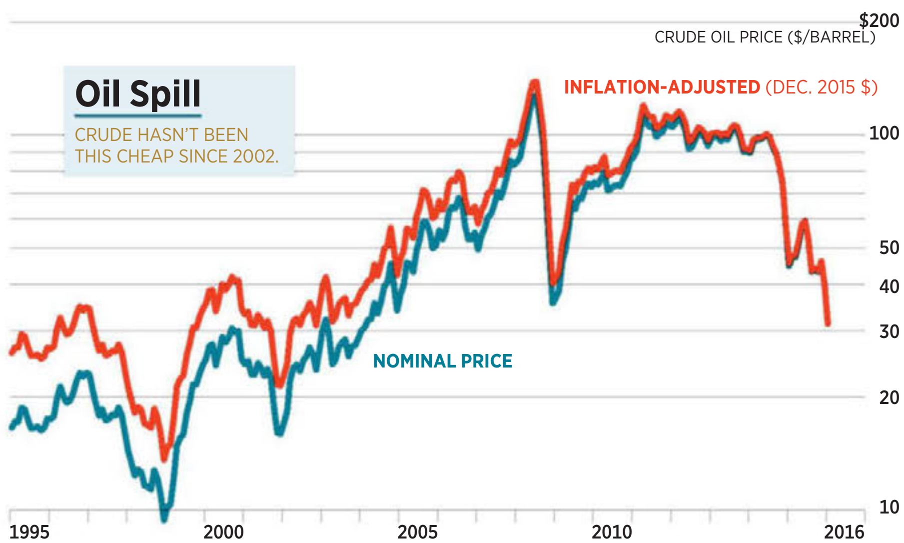
In 2002 Devon Energy bought Mitchell's company for $3.5 billion. By 2004 Chief had become the second-biggest producer in the Barnett. Business got so good that Rees-Jones was able to buy out three of his four partners for about $20 million. The group had put up $170,000 for about a third of the company back in 1994. Soon he cut a deal with Ross Perot Jr. to drill on land Perot owned. By 2006 valuations had gotten so frothy that Rees-Jones decided to sell Chief's original Barnett leasehold to Devon Energy for $2.2 billion and its pipeline assets to Crosstex Energy for $480 million. He wouldn't have minded selling everything in the Barnett in 2006, but Perot wanted them to do more drilling first. Good idea.

What really lit the fuse on the Great American Oil & Gas Boom were the record prices in 2008: $140 a barrel for oil and $14 per million cubic feet for natural gas. Worrywarts cried that the world had hit Peak Oil and we'd all soon be paying $20 a gallon at the pump while importing liquefied natural gas in tanker ships from places like Qatar. Those prices incentivized a lot of risk-taking. Land that Rees-Jones had previously leased for $50 an acre was going for $10,000. "It was a runaway-train atmosphere," he says. "So hopped up and hyped up, it was a boom that looked like it had gotten away from itself." In 2008 he and Perot sold the rest of their operations to Quicksilver Resources for $1.3 bil-

"IT WAS AMAZING TO WATCH HIM BAT A THOUSAND AFTER YEARS OF STRUGGLING TO HIT .150"

Oil Spill

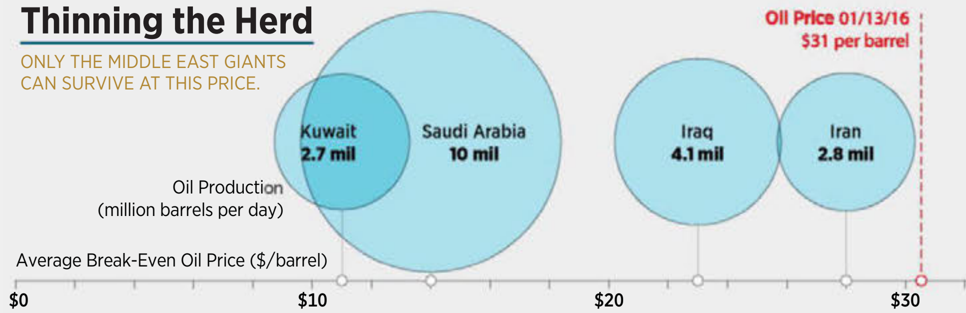
CRUDE HASN'T BEEN THIS CHEAP SINCE 2002.



SOURCE: U.S. ENERGY INFORMATION ADMINISTRATION.

Thinning the Herd

ONLY THE MIDDLE EAST GIANTS CAN SURVIVE AT THIS PRICE.



SOURCES: RYSTAD ENERGY; WOOD MACKENZIE; ENERGY INFORMATION ADMINISTRATION; ENERGY ASPECTS; FORBES ESTIMATES.

lion, from which Chief netted about $330 million.

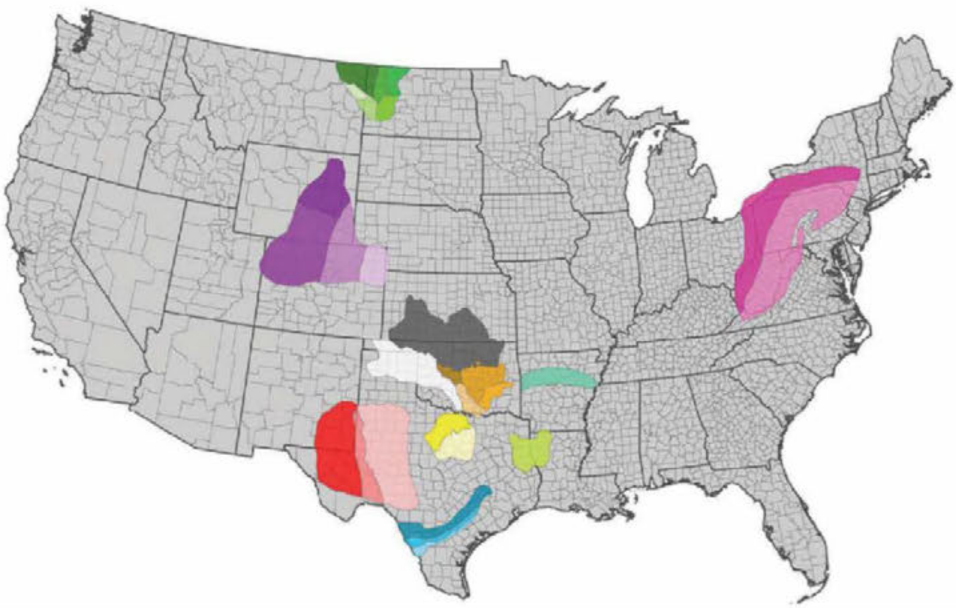
Rees-Jones doled out celebratory bonuses to his employees, millions of dollars in some cases. He also took $400 million to endow the Rees-Jones Foundation. He was less eager to write checks to those former partners. One of them, D. Bobbitt Noel Jr., sued Rees-Jones in a Texas district court. A jury determined that Rees-Jones had defrauded and breached his fiduciary duty to Noel (a close friend from back in high school) by buying out Noel's stake in Chief while concealing from him the knowledge that advances in drilling and fracking had made Chief's leaseholds much more valuable. The judge awarded Noel $196 million. Rees-Jones later settled with him out of court for an undisclosed sum.

But he was far from done making money. Rees-Jones had moved quickly to replicate the Barnett miracle. In 2007 Chief and its 20% partner, Tug Hill Inc., owned by Michael Radler of Dallas, began leasing up land in Pennsylvania to drill the Marcellus shale. Rees-Jones knew there was no way to identify the "sweet spots" of the field until hundreds of wells had been drilled, so, competing against big public companies like Range Resources, Cabot Oil & Gas and Chesapeake Energy, he leased land all over and ended up with 600,000 acres throughout Pennsylvania.

The Marcellus soon proved to be the nation's biggest gas field. Interest exploded, again prompting Rees-Jones, wisely, to "take some chips off the table." In 2009 Chief and Tug Hill dealt in a new partner, Enerplus Resources, which paid $400 million for roughly 30% of the acreage. In late 2010 they sold another 100,000 acres, half the northeastern portion, to Exco Resources for $460 million. Then in May 2011 Chevron bought Chief's southwestern acreage for $1.8 billion. In April 2012 Rees-Jones sold his Marcellus pipeline network to Penn Virginia Resource Partners for another $1 billion.

Seven years. Seven sales. Seven billion dollars.

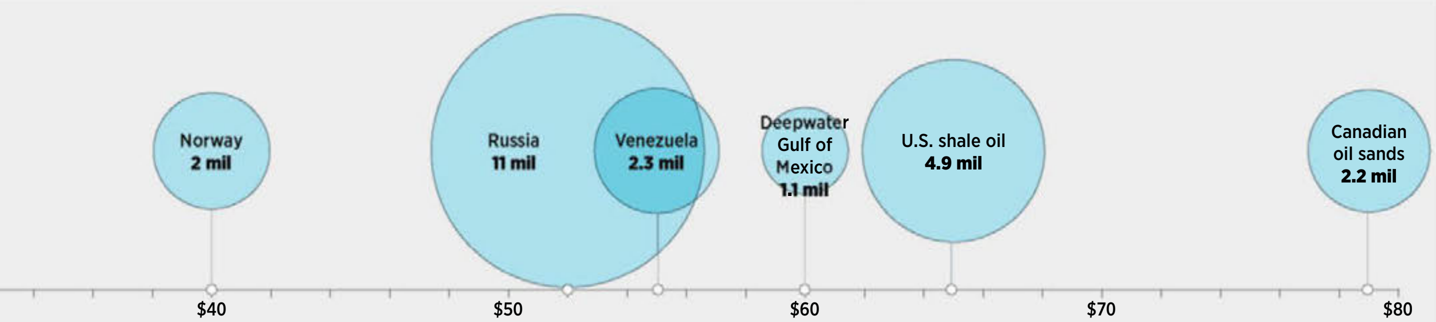
As in the Barnett, the timing of his Marcellus sales couldn't have been better. At the time of the Chevron deal natural gas was trading at $4.30 per thousand cubic feet. A year later it had slumped below $2. The



Oil (and Gas) Painting

THE LEADING SHALE DISCOVERIES, SO FAR.

SOURCE: DRILLINGINFO ANALYTICS.



price collapse didn't surprise Rees-Jones: He'd seen firsthand that massive amounts of gas could be fracked out of Marcellus rock. For gas producers that 2012 slump was a prologue to what the oil drillers are dealing with now. "This is nothing new for me," he says. "I've been learning how to deal with low prices since 2012."

Chief had held on to its best acreage: 200,000 acres in the most prolific northeastern part of the Marcellus. And as cratering prices began crushing heavily indebted producers, he's leapt at the opportunity to switch from seller to flush buyer. In 2013 Chief paid Chesapeake Energy $500 million for Marcellus land that overlapped its own position. He says it costs about $1.50 per thousand cubic feet to produce and transport gas there—among the cheapest spots in the nation. Thanks to long-term contracts guaranteeing him capacity on pipelines to New York and Boston, he can make good returns even at today's low $2 natural gas prices. Without those pipeline contracts (that is, if he were trying to sell excess gas into the spot market) he couldn't even break even.


Rees-Jones and his wife, Jan, take in the view from the palatial "hunting lodge," to be completed in 2017.

That'll change in a couple years, he says, as new pipelines get completed. In recent months Rees-Jones has picked up more acres from Anadarko Petroleum, for $30 million. "If I can make good returns now, it's going to get a lot better in a couple years," he says. Until then Chief will run just one or two rigs there.

SO WHAT HIS NEXT PLAY? With plenty of natural gas to work with, Rees-Jones is looking for oilfields that enjoy the same low-cost advantage as his Marcellus gas operation. Where is that? "I don't know, but I suspect we're going to find out." What he means is that, as the oil bust grinds on, we will learn which oilfields are the best, because they will be the last spots with drilling rigs still operating. And it's in and around those places where he hopes to find assets to buy.

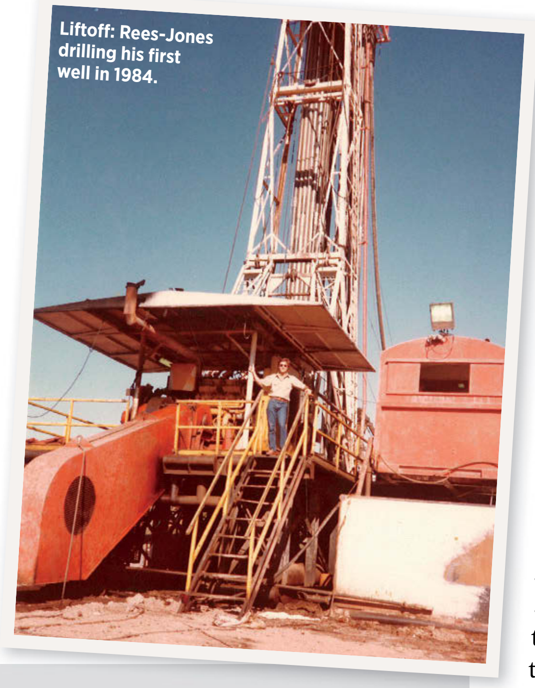
Cheap doesn't necessarily imply good value. The lesson that many companies have learned the hard way is that in many spots "even if you got the land for free it makes no sense to drill the wells," says Ed Hirs, an energy economist at the University of Houston. "You have to have low-cost rock above all else." For example, Rees-Jones has no interest in buying back into the Barnett shale. There's still plenty of gas there, but it costs more to drill out than it's worth. Quicksilver Resources, which bought much of Chief's acreage there, went bankrupt last year. Other oil plays that have been all but abandoned in the past year include the Tuscaloosa Marine shale of Louisiana and Mississippi (which needs oil above $90 to be economic) and the Mississippi Lime in Kansas, where Rees-Jones lost $150 million drilling some uneconomic wells in 2012. "I was able to take that loss in a lot more stride than a $2 million dry hole back in my Barnett days."

"YOU HAVE TO HAVE LOW-COST ROCK ABOVE ALL ELSE."

So what does look interesting? There are plenty of sweet spots in North Dakota, Colorado and the Eagle Ford field in Texas. His team has been eye-

ing some multilayer shale formations in Oklahoma and is developing some conventional (that is, nonshale) fields that had been overlooked in recent years, including one in Florida. But ultimately, he says, "the Permian Basin would be my favorite place. There is just so much oil out there."

That vast region of West Texas and eastern New Mexico, the land of *Friday Night Lights* and *Giant*, has been drilled for 100 years, but drillers are only now figuring out how best to tackle its layer cake of frackable shales stacked on top of each other. Because of the low cost of extraction, the Permian is the only large U.S. oil patch that has continued to increase output during the downturn, to more than 2 million barrels per day. Shares of Permian-focused companies like Pioneer Natural Resources have held up better than others. Investors consider Pioneer's prospects so bulletproof that in early January they gobbled up the company's $1.4 billion offering of new shares. Another Permian player, Parsley Energy, is up 22% from its lows. Bryan Sheffield, Parsley's CEO, claims he has squeezed



Liftoff: Rees-Jones drilling his first well in 1984.

costs tight enough that "even if oil stays at $40 forever, we estimate that our portfolio of horizontal Wolfcamp wells would generate returns between 30% and 40%." But prices are well under $40. Rees-Jones figures "if oil is still trading in the $40s or even in the low $50s at the end of the first quarter, some opportunities will begin to come open." Good time to be a bankruptcy attorney.

Don't bet that oil prices will get back up to even $75 per barrel anytime soon, let alone $100. "The Saudis, with the pain they've endured to this point, they are not going to let the price of oil get back to that range," says Rees-Jones. "It would stimulate too much activity." The Saudis, still sitting on $600 billion in foreign reserves, can endure. Saudi Aramco's marginal cost to produce a barrel of oil is about $20. Their average cost? Less than $6. Sure, they would love $100 oil, but not at the cost of making viable marginal deposits in the tar sands of Canada and the shale rock of America.

Rees-Jones doesn't need to do more deals. He could just spend his days riding his mountain bike, overseeing construction of his hunting lodge, expanding his collection of Western art (think Remington and Russell) and planning the next Party Barn bash. But that isn't enough for this king of fracking. "I always enjoyed playing poker," he says. "But after I got to drilling I lost my interest in playing poker. My risk-taking was satisfied by drilling wells."

We enjoy his good fortune, watching the sun go down over the ranch with cigars and a bottle of exceptional French Bordeaux. Coyotes begin to howl in the distance. Rees-Jones assures me he's still in it: "When I was able to get down the road a ways and look back, I realized success is 90% perseverance. The key is to stay in the game." F

Buy Oil Now

IF YOU LIKE $2 GASOLINE, NOW'S THE TIME TO LOCK IT IN.

AS THE PRICE OF OIL HAS PLUNGED FROM $100 A BARREL TO $30, gasoline has gotten cheap. At $2 a gallon you can now fuel the average car for about $1,000 a year. No wonder SUV sales have surged. But the cheap gas won't last—oil companies can't make any money at these prices. Even Saudi Arabia is feeling enough pain that it's considering an IPO of Saudi Aramco. Don't think for a second the oil industry is in some kind of death spiral. Global supply, at 95.5 million barrels per day, has never been higher. Neither has demand, at 94 million bpd and growing. Despite the handwringing of the anticarbon *agonistes,* we'll still be using oil for a long time. In a couple years or less demand will catch up with supply, oil prices will return to sustainable levels and $2 gas will be history. You can effectively lock in your cheap fuel supply by buying oil now. Though you probably aren't in the position to buy oilfields outright, like Trevor Rees-Jones, shares of oil and gas producers are selling at deep discounts.

Among the top picks of Morningstar analyst David Meats is **Cabot Oil & Gas**, which like Rees-Jones' Chief Oil & Gas holds a large position in the juiciest part of the Marcellus shale. He also likes **Continental Resources**, which is focused on the Bakken. Analyst Bob Brackett at Sanford C. Bernstein likes **EOG Resources**, which holds the best position in the Eagle Ford shale. Also **Anadarko Petroleum**, which is in many of the best shale fields. A more diversified way to go is the **Vanguard Energy Fund**. Top holdings include **Exxon Mobil**, **Chevron**, **Pioneer Natural Resources**, EOG and **Royal Dutch Shell**. The no-load fund's expense ratio is just 37 basis points. There may still be some hard months ahead for oil and gas, but if you add to your investment every week for the next few months, you might just catch the bottom. As oil and gasoline prices rise, producer profits will surge—proceeds that will help fill up your ride for years to come. *—C.H.*

RIGHT: COURTESY OF TREVOR REES-JONES

DOUBLING DOWN

LAWRENCE HO IS BETTING $3.2 BILLION THAT HE CAN MAKE MACAU MORE LIKE LAS VEGAS.

BY MUHAMMAD COHEN

Mention his wealth and billionaire Lawrence Ho chuckles, "Shrinking by the second!" A gambler in the gambling business, he's comfortable with risk, even if that means that his fortune, as the CEO of Chinese casino giant Melco Crown Entertainment, has more than halved over the last two years, in lockstep with a 25% decline in Macau's GDP over the last three quarters and a 34% drop in gambling revenue.

Melco Crown and Ho have been placing small bets on casino projects elsewhere in the region. But true gamblers don't hedge, which explains his new Studio City, conceived in better times and opened in October. It's a $3.2 billion bet that like his father, Stanley Ho, Macau's 20th-century casino king, he can reinvent the business model in this unique Chinese administrative area that in 2013 had seven times the gambling revenue—$45 billion—of Las Vegas.

His timing couldn't be worse. For 19 months year-over-year gambling revenue in Macau has fallen every month, a growth chart that looks less like China, more like Yemen. And it's only going to get tougher for the operators: Macau is in the midst of a $23 billion building boom that will increase its guest room count by 50%, to more than 40,000. "A horrific operating environment," the 39-year-old Ho admits.

Studio City is Ho's attempt to change the local dynamic. It's located at the south end of the Cotai Strip, a man-made piece of land that Sheldon Adelson envisioned in the mold of the Las Vegas Strip. Accordingly, Ho is going full Sin City. Endless rows of tables and slots are out; hundreds of millions of dollars on rides, atmospherics and marquee acts are in. "We don't like to cookie-cut things," he says.

Even in a rich gambling setting, baccarat tables are a commodity, says Ho. "What we really use to stand out from our competitors is entertainment and attractions." With a cinema theme and a black-clad art deco exterior, Studio City is "Gotham City with an asteroid shot through it," he says. The world's first Batman Dark Flight ride carries thrill-seekers on a 4-D urban rescue mission, battling supervillains for survival. The ride "doesn't exist anywhere else because it's so expensive," he says. "You can't put it in any theme park and hope to generate a return on it. But we can subsidize it with the gaming."

Then there's the Golden Reel, the world's highest figure-eight Ferris wheel. Inspired

DAVID HARTUNG FOR FORBES

"We invest for the future. Whenever we build an integrated resort, it's for the next 10, 20 years."

SIDE BETS

Ho's $1.6 billion City of Dreams in Manila is part of his expansion outside of Macau.

LAWRENCE HO'S gaming interests stretch well beyond Macau. Melco Crown owns and operates the $1.6 billion City of Dreams in Manila through a Philippine-listed subsidiary in a partnership with the family of Henry Sy, the Philippines' richest person. In November Melco Crown put another $57.5 million into the project.

Ho-controlled Melco International Development's Nasdaq-listed subsidiary Entertainment Gaming Asia operates slot machines in casinos on a revenue-sharing basis in the Philippines and Cambodia, plus the DreamWorld slot parlor in Poipet, the casino cluster closest to Bangkok. Through another Melco subsidiary he is keen to participate in Spain's casino tender. "There hasn't been a real mega-integrated resort in Europe, and given Barcelona and its position in Europe, it's a good opportunity to do that," he says.

Via Hong Kong-listed Summit Ascent, Ho holds a majority stake in Vladivostok's Tigre de Cristal casino that opened in October, targeting players from South Korea, Japan and northern China (Macau remains largely a southern China market). He also has Georgia on his mind, with a "management deal" for a planned casino in Tbilisi. "A lot of people think, oh, Vladivostok, we must be going after the Russian business. [But] Moscow to Vladivostok is eight hours," he explains, "whereas from Moscow and St. Petersburg, which is 99% of the wealth in Russia, to Georgia, it's an hour and a half."

Melco Crown had also expressed interest in developing a casino resort in Incheon, South Korea, but it dropped out of the bidding for a license in the round that ended in November. *—M.C.*

by the celluloid running through a projector, it's located between the casino's two wings—the gap created by Ho's imaginary "asteroid." Riders board at the 23rd floor and ascend 427 feet above Cotai. Other entertainment features include Warner Bros. Fun Zone, which lets families interact with Looney Tunes and DC Comics favorites; a pool deck fringed in white sand with three lazy river routes and waterslides; and a 5,000-seat arena. It hosted American singer Mariah Carey and Hong Kong superstar Aaron Kwok on opening night. Two shows by Madonna are slated for this month. On New Year's Eve it conducted a New York-style countdown, complete with ball drop.

As you wander around Studio City, movie references are everywhere—Fred and Ginger restrooms, soundstage versions of New York and Los Angeles in its shopping mall, a full-fledged production studio. The casino even has its own 16-minute film, *The Audition*, starring Robert De Niro, Leonardo DiCaprio and Brad Pitt and directed by Martin Scorsese. Budget: a reported $70 million. "It serves as a vehicle to promote Macau," shrugs Ho.

Ho had more than cash to offer his who's who lineup of stars: Melco Crown cochairman James Packer, the Australian billionaire heir (his father, Kerry, was one of the biggest casino whales of all time), lives in Los Angeles and invests in the film industry. "The movie and casino businesses are closer than people think," says Packer. "Movies and casinos are businesses that change the way you feel."

These nongambling elements dovetail with government directives, enshrined in consecutive Five-Year Plans from Beijing, to make Macau a "world tourism and leisure center." Macau's government now allocates new gambling tables—capped at 3% growth annually since 2012—based on a casino operator's nongambling attractions and support for local small businesses. "We understood what the government wanted," says Ho.

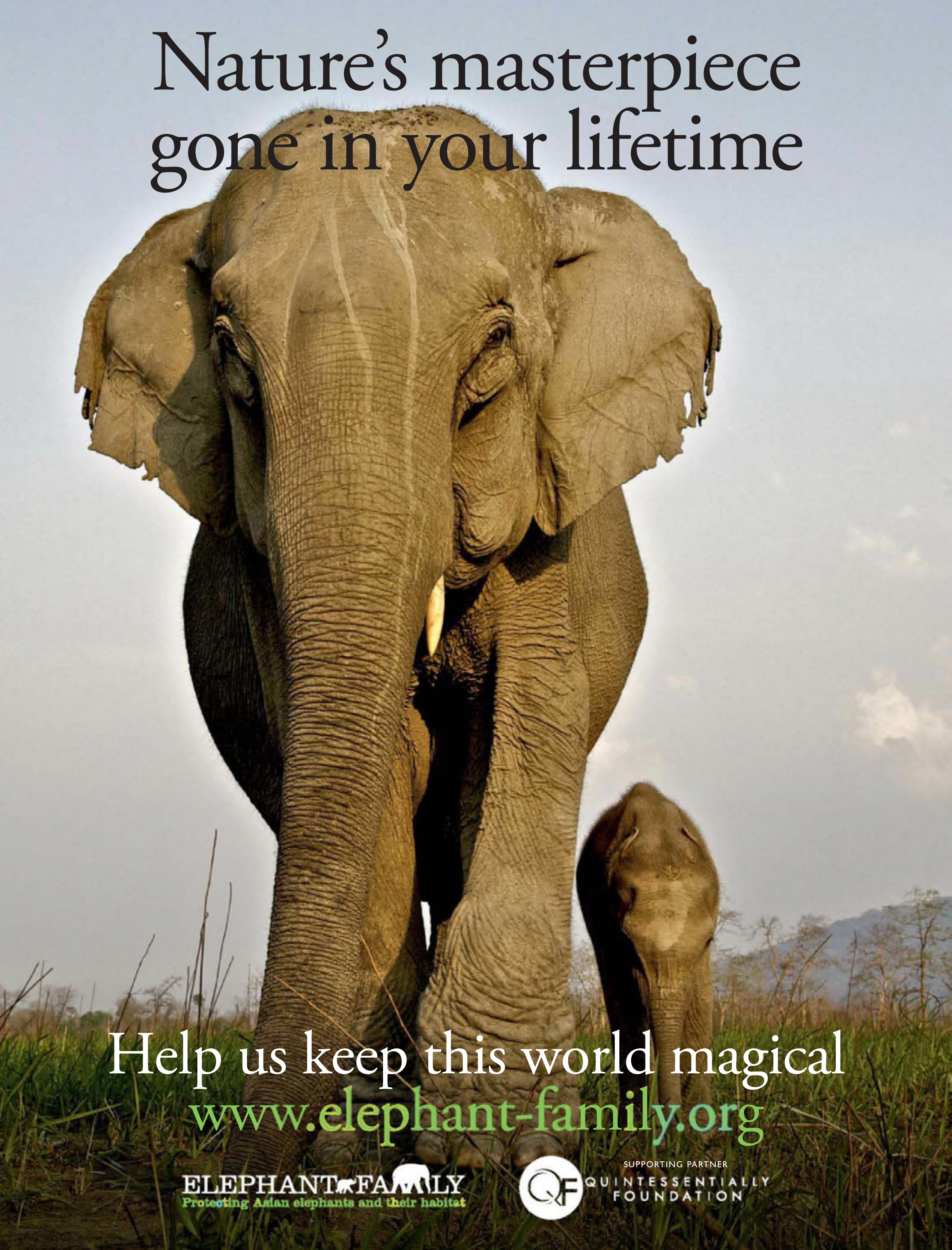
Ho took an even more remarkable gamble at Studio City by shunning VIP areas. That was unthinkable in Macau even a year ago, but now it's "a no-brainer," he says. VIP play accounted for less than 10% of Melco Crown's adjusted earnings even before Studio City opened—Macau's second-lowest figure behind Las Vegas Sands subsidiary Sands China.

Just five years ago VIP play generated 73% of Macau's revenue. But it has always underperformed when it comes to profits. Mass-market revenue is up to four times as profitable as the VIP take, with no commissions to pay to junket promoters and fewer freebies to hand out to keep customers coming. And mass-market players are more likely to spend on all these extras—rooms, food and $19.30 Batman rides—in which the Hong Kong-based Ho has invested.

This billionaire son of a billionaire is bearish on high rollers. "Ultimately, the rise of the middle class is what drives growth in Macau and Asia," he contends. Says Global Market Advisors partner Andrew Klebanow: "Lawrence Ho made the right call at Studio City. If he's got VIP business, he's got plenty of tables for them" at his other casinos.

Ho's more Western outlook stems in part from his upbringing. While his father, Stanley, built Macau's international airport, replaced overnight steamers from Hong Kong with one-hour hydrofoils and presided over the icon-

SANJIT DAS/BLOOMBERG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QUINTESSENTIALLY FOUNDATION

ic Hotel Lisboa for more than four decades, the younger Ho grew up mainly in Toronto. He was an investment banker until Dad, now 94 and pretty much retired since a 2009 fall, lured him into the family industry.

Before turning 30 he had established Mocha Clubs as a chain of cafe-style electronic slot-machine parlors at a time when machines were an afterthought in Macau. Next he joined with Packer's Crown Resorts to create Melco Crown, which bought Macau's last gaming subconcession, for $900 million, to operate independently rather than under his father's license. The joint venture, in which Crown and Ho's Melco International Development each own a third, listed on the Nasdaq in 2007. That was a few months after it launched Crown Macau (now Altira Macau), a $500 million, five-star property focused on high rollers that triggered a commission war, leading the government and casino operators to set a 1.25% maximum on rebates to junket promoters who bring in VIPs.

Melco Crown grabbed a bigger piece of the pie when it opened its second casino—the $2.4 billion City of Dreams in 2009—as Cotai's second full-scale resort. In 2011 Ho spent $360 million for Studio City, a project stalled at the piling stage since 2007 due to strife among the partners.

Macau's decade of extraordinary growth (from $3.5 billion in 2003 to $45 billion in 2013) abruptly ended through a combination of government policies—including an anticorruption crackdown, crimping conspicuous consumption of all kinds—and slowing economic growth on the mainland, the source of two-thirds of Macau's visitors and even more of its casino winnings. The number of visitors to Macau likely fell last year for the first time since 2009; gambling revenue dropped 34% to $28.9 billion. Hotel occupancy rates were down by five percentage points from 2014.

Chinese and other Asian travelers are "getting more sophisticated," says Ho, taking advantage of the depressed yen to see Japan and, perhaps bored with Macau, sampling nearby gaming destinations, such as South Korea, Cambo-

> **MACAU'S DECADE OF EXTRAORDINARY GROWTH ABRUPTLY ENDED THROUGH A COMBINATION OF GOVERNMENT POLICIES AND SLOWING ECONOMIC GROWTH ON THE MAINLAND.**

dia and the Philippines. Yet not only is Studio City hitting the market with its 1,600 rooms, but City of Dreams also is adding a fifth hotel tower with nearly 800 rooms, designed by renowned architect Zaha Hadid, plus Cotai's first street-front retail. The city's change in fortune is hitting Ho hard. Two years ago he ranked 12th on FORBES list of Hong Kong's richest, with a $3.4 billion net worth. Right now he ranks 41st, with $1.57 billion in wealth.

Melco Crown's shares have lost more than 60% of their value over the last two years, but there are no apparent strains between the two equal partners. Packer, 48, takes a back seat while Ho runs Melco Crown, and he piles on the praise. "What Lawrence has created here is amazing," Packer said at the Studio City opening. "I don't think there's another casino like it." With Studio City and City of Dreams bookending the strip's main drag, Melco Crown has "the two best sites in Cotai. We're a model joint venture of how an Australian company and a Chinese company should work." Adds Ho: "In the gaming business, with the egos involved, we're very proud of how the company has worked."

It's been open for barely three months, but Studio City seems to be off to a good start. In its first full operating month it helped Melco Crown capture its biggest-ever share of Macau's gaming market—16.6%, estimates broker Sanford C. Bernstein. Hotel occupancy reached 90% within days of opening. But Studio City didn't provide any immediate lift to the broader market, with Macau's overall November gaming revenue hitting a five-year low of $2.06 billion. And Studio City's 3.6% share of mass-market revenue was below its share of mass-market tables, around 5%.

This is still a gambler's town, despite authorities' efforts to encourage diversification. Nongambling still represents less than 10% of Macau casinos' total revenue, compared with 65% in Las Vegas, and there have long been questions over how big an appetite visitors have for spending time and money away from the tables.

Ho is investing in change, and he's not alone. Beijing has set up a free economic zone on Hengqin, a mainland island just across from Cotai, including plans for office buildings, hotels, amusement parks, apartment towers and a link to China's high-speed rail system (creating the world's busiest border crossing). The first stop in Macau will be at Studio City's doorstep, and even though Macau's half of the rail link is already six years behind schedule, Ho isn't worried. "We invest for the future," he says. "Whenever we build an integrated resort, it's for the next 10, 20 years." F

Solving Pharma's Shkreli Problem

THE MOST HATED ENTREPRENEUR IN AMERICA DID A PUBLIC SERVICE IN SOME WAYS: HE REVEALED A FUNDAMENTALLY FLAWED SYSTEM THAT THREATENS AN ENTIRE INDUSTRY.

BY MATTHEW HERPER

GLEN DAVIS

More than $1 trillion of power in the health care world, as measured by market cap, gathered in December in New York at the Forbes Healthcare Summit. The CEOs of Pfizer and Merck. The billionaire founder of Regeneron. The heads of GlaxoSmithKline and Celgene. But the hottest guest—the one many thought would be a no-show, even though he'd personally messaged that he was "100% coming"—was a 32-year-old in a hoodie.

Even before his arrest on securities fraud charges, Martin Shkreli, a former hedge fund manager, had become the pharma industry's biggest villain. Perhaps the only thing that Hillary Clinton, Bernie Sanders and Donald Trump agree on is that his actions are, in Trump's words, "disgusting." Shkreli was largely unknown outside biotech circles until September, after his company, Turing Pharmaceuticals, purchased Daraprim, a drug to treat rare but deadly toxoplasmosis infections in AIDS and transplant patients, for $55 million and promptly raised its per-pill price from $13.50 to $750 overnight. The Internet quickly named him the "Most Hated Man in America."

He was also the most unrepentant. He did show up, facing the wall of suits in sneakers, jeans and that hoodie: "We have shareholders just like every other company, and our shareholders want us to maximize our profits."

When Kym White, who heads the health care practice at public relations giant Edelman, asked whether he would have done anything differently, he replied, "I probably would have raised the price higher is probably what I would have done." Everyone gasped. Headlines were again generated worldwide.

And why would he do that? "I think health care prices are inelastic," Shkreli said, coldly. "I could have raised it higher and made more profits for our shareholders. Which is my primary duty. Again, no one wants to say it. No one's proud of it. But this is a capitalist society, capitalist system and capitalist rules. My investors expect me to maximize profits. Not to minimize them or go half or go 70% but to go to 100% of the profit curve that we're all taught in M.B.A. class." (For the record, Shkreli doesn't have an M.B.A.)

Martin Shkreli has a knack of saying exactly the thing that will make people angry. But the industry's dirty little secret is that it is full of Martin Shkrelis, albeit less greedy ones with nicer shoes and more polished manners. They usually don't raise prices on old drugs by 5,000%—just 50% or 500%. Over the past three years Merck's price increases have amounted to 29% of its sales growth, Pfizer's 34% and AbbVie's 112%, according to consultancy SSR, which does health care research.

This is pharma's Shkreli problem. Yes, many new drugs must be expensive, or nobody would spend years and billions of dollars to invent them. But should Shkreli—or anyone else—be able to raise the price of a 62-year-old drug 5,000% in one fell swoop? What if he raised the price by just 200%? What if he made sure patients who can't afford the drug get it for free—as he claims he does? Or if he promised to put some of the money into research and development—as he also says he does? Would any of this have made it okay?

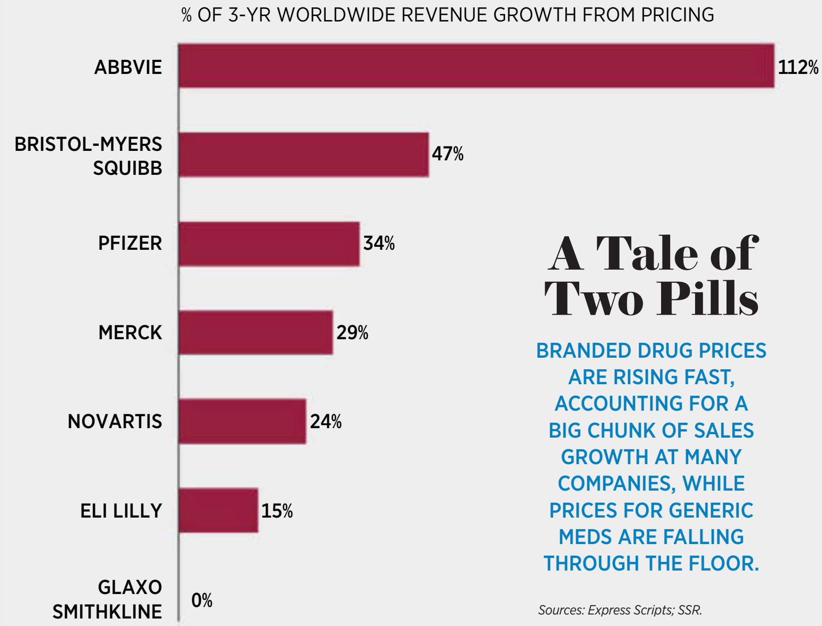
We have a new measure for claims about drug prices: the Shkreli test. How would any justification for raising the cost of a drug sound coming out of Martin Shkreli's mouth rather than smoothly parsed in legally vetted sound bites? Some price hikes, like those for innovative drugs, clearly pass. But many others don't.

> "My investors expect me to maximize profits. Not to minimize them or go half or 70% but to go to 100% of the profit curve."

WHEN I FIRST MET MARTIN SHKRELI over a lunch of branzino at a midtown Manhattan restaurant in 2012, he was wearing a suit. And he talked only about inventing new drugs, not buying old ones and jacking up the price.

The son of working-class immigrants, Shkreli was then running a small hedge fund, MSMB Capital, and was becoming small-scale notorious for publicly attacking companies while selling their stock short. Take Afrezza, billionaire Al Mann's attempt at creating an insulin you can breathe in instead of inject. Shkreli shorted the stock of Afrezza-maker MannKind and then filed a petition with the Food & Drug Administration arguing the drug should not be approved. (It eventually was but has not been selling well.)

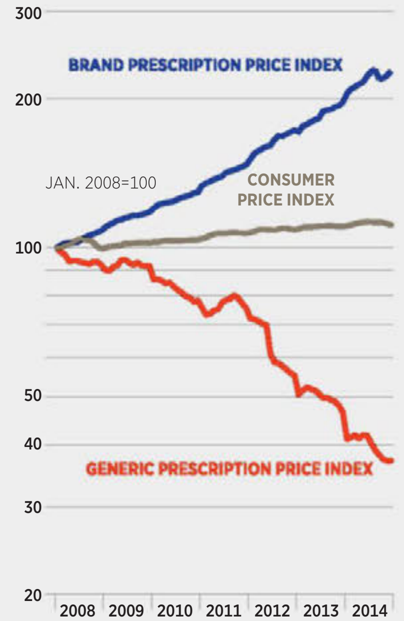
But he said he wanted to do more than just be a speculator: He wanted to invent drugs, and he'd started a company called Retrophin to do it. Shkreli initially got money to license a muscular dystrophy drug from investors including Fred Hassan, the legendary former chief executive of drug giant Schering-Plough, and Hassan's protégé Brent Saunders. (Both now claim that their relationships ended quickly and Shkreli exaggerated their importance.) "The only person I needed affirmation from was Fred Hassan," Shkreli told me then. He'd also licensed a drug for a rare kidney disease from Ligand Pharmaceuticals.



A Tale of Two Pills

BRANDED DRUG PRICES ARE RISING FAST, ACCOUNTING FOR A BIG CHUNK OF SALES GROWTH AT MANY COMPANIES, WHILE PRICES FOR GENERIC MEDS ARE FALLING THROUGH THE FLOOR.

Sources: Express Scripts; SSR.



Then, seemingly out of the blue, Retrophin fired Shkreli in September 2014 and sued him a year later, alleging he had illegally used money, shares and sham consulting agreements from Retrophin to pay off his hedge fund investors and enrich himself. Federal prosecutors and the Securities & Exchange Commission followed up with criminal and civil charges, and more juicy allegations: that in 2010 Shkreli was telling investors that MSMB Capital had $35 million in assets when it had less than $1,000, and that in 2012 he lost $7 million after a short sale of obesity drugmaker Orexigen Therapeutics went wrong. Shkreli claims Retrophin doesn't want to pay him a severance payment and that the feds don't understand his accounting. Or, as he said at the Summit, two weeks before being arrested in a pre-dawn raid and forced to endure a humiliating perp walk in chilly December rain: "Politicians love to beat up on guys that are seen to be public enemies, if you will. That's a great way to get elected."

Soon after being ousted from Retrophin, Shkreli was back in the saddle, raising, he says, $100 million for his new company, Turing Pharmaceuticals.

"[I] made a few phone calls and got $100 million in the bank," he said at the Healthcare Summit. "My investors know what I do with that money. I multiply it for them. That's my job. I did really well, and I'm going to keep doing it. That's part of what capitalist America is all about."

How? He was pushing the envelope on price. It's amazingly easy to raise the price of a drug in the U.S. without seeing volume decline, so long as you make sure that patients can afford the out-of-pocket cost. The insurance companies foot the bill.

None of this was new: Shkreli had learned about price hikes by watching his elders. In 2007 a mechanical engineer and former defense chief executive named Don Bailey took over Questcor Pharmaceuticals and raised the price of a drug used to treat seizures in infants, Acthar Gel, from $50 to $28,000 a vial, and then marketed it for diseases like multiple sclerosis where there was limited evidence it worked. Questcor was sold to Dublin-based Mallinckrodt for $5.6 billion in 2014.

Valeant Pharmaceuticals, based in New Jersey but tax domiciled in Canada, made a habit of raising the prices of drugs. Last February it purchased Nitropress and Isuprel, both heart drugs, and increased their prices by 500% and 200%. The price of Wellbutrin XL, an antidepressant purchased from GlaxoSmithKline, has quadrupled after the FDA warned that generic versions of the drug might not be effective.

IN 2005 A BANKER NAMED STEVEN HARR pointed out that the only barriers to sky-high prices for cancer drugs were pharma "companies' goodwill and tolerance for adverse publicity" but warned his clients that they risked subjecting the industry to increased regulation and quite possibly price controls. (Harr is now the chief financial officer of Seattle biotech Juno Therapeutics.)

The corollary is that if you're going to raise prices,

the last thing you want to do is court publicity. Every other company practicing this strategy tried to avoid the press. This was not Shkreli's move. He called a prominent biotech journalist a "moron" on Twitter. After Hillary Clinton repeatedly tweeted about Shkreli in order to promote her own plans to lower pharmaceutical costs, Shkreli wrote back "LOL." He took to conducting live YouTube streams of himself, playing videogames, cruising online dating sites and answering questions from viewers. In December it came out that he had spent $2 million on the sole copy of an album by the hip-hop group Wu-Tang Clan. He claimed he hasn't listened to it but told the rap website HipHopDX he'd play it for Taylor Swift if she performed oral sex on him. It was more performance art than p.r.

Understandably, respectable pharmaceutical companies want to distance themselves from this circus. "I think it's really important for our industry to make it clear that he is not us," said Kenneth Frazier, the chief executive of Merck. "We are a research-based pharmaceutical industry."

"That guy is not in the same business as we are," echoes Leonard Schleifer, the billionaire founder and chief executive of biotech Regeneron. He blames the fact that insurers don't cover drugs the way they do medical procedures. He says a family member had a $150,000 bypass surgery, which was covered by insurance, and then the insurer balked at paying $6 a pill for Lipitor to prevent another. "People learned to hate the pharmaceutical industry, and politicians took easy potshots," Schleifer says.

Hillary Clinton actually internalized this argument so much that she made it part of her proposal for controlling drug costs, arguing that pharmaceutical companies should face a penalty if they don't spend a certain amount of their revenue on research and development. Aside from being possibly unworkable, this proposal fails because it almost certainly wouldn't have kept Shkreli from raising Daraprim's price—after all, he claims to be spending money on R&D. And do we really want the government mandating how companies invest their capital or deciding whether a drug company's R&D is worthwhile or not?

The current system is almost guaranteed to cause price increases, because it completely lacks the transparency good markets need. Drug companies are forced to focus on expensive drugs for smaller patient populations, because for many common diseases—diabetes, heart disease, depression—there are now highly effective and incredibly cheap generic medications available (80% of drugs dispensed in the U.S. are generic).

Moreover, the customers who pay for drugs are not the patients who consume them but employers and insurance companies—and nobody knows the real price. The negotiating power is in the hands of insurers or pharmacy-benefits managers like Express Scripts (annual sales: $100 billion) and CVS Caremark ($140 billion); they decide which drugs are covered and how much patients pay in copays. Sometimes drug companies give discounts of as much as 60% to these firms in order to get better placement for their medicines. But this also forces companies to take what price increases they can, in order to make up for those discounts.

ALTHOUGH OPAQUE AND CONVOLUTED, this system is not without its benefits. In 2014 a congressional investigation was launched against Gilead Sciences because it priced a treatment for hepatitis C, Sovaldi, at $84,000 per course. But the drug, and its successor, the one-pill-a-day Harvoni, is incredibly powerful, curing more than 90% of patients. Once a competitor emerged (a drug from AbbVie called Viekira Pak), Gilead began paying 40% of sales in rebates. Now more than 300,000 Americans have been cured of the virus, including former *Baywatch* actress Pamela Anderson, which will result in fewer liver transplants in the future. As for the initial price, Gilead hardly had a choice: It knew that competition was coming.

The biggest problem is not new expensive drugs but repricing old ones, and not just ones being purchased by Martin Shkreli or Valeant. "You have no

Price Fixing

HOW DO WE FIX PHARMACEUTICAL PRICING? HILLARY CLINTON'S IDEA OF MAKING DRUG FIRMS PAY A TAX IF THEY DON'T SPEND ENOUGH ON R&D PROBABLY WOULDN'T LOWER PRICES. AND HER OTHER IDEA OF MAKING SENIORS WHO ARE ELIGIBLE FOR BOTH MEDICARE (HEALTH CARE FOR SENIORS) AND MEDICAID (THE PROGRAM FOR THE POOR) TAKE MEDICAID WOULD RESULT IN SAVINGS, BUT IT COULD ALSO MEAN GIVING RICH PEOPLE BETTER HEALTH INSURANCE THAN POOR PEOPLE. HERE ARE SOME MORE INTERESTING IDEAS:

Make the system transparent. Right now we don't know the real price of drugs, because all the bargaining happens on the rebate side. Markets work better when everyone can see prices. This would hurt pharma's profits and negotiating power but help its image.

Give the FDA the ability to treat a price increase of an off-patent drug as a shortage. This would have stopped Martin Shkreli's price hike on Daraprim in its tracks. The drug sells for $20 in the U.K., where Glaxo sells it. In cases of a declared drug shortage,

new research. You have no innovation. You have nothing but increased drug prices," says Steve Miller, chief medical officer at Express Scripts. According to his company's data, the average cost of a branded drug has increased 127% between 2008 and 2014 *(see graph, p. 83)*.

All drug companies take price increases in the U.S. on their medicines, often at rates much higher than inflation. Biogen's Avonex, a multiple sclerosis drug introduced in 1996, is about as effective as rivals Copaxone from Teva and Rebif from Merck Serono (not the U.S. Merck). But competition hasn't kept the price down. According to industry analysts, the list price of Avonex has increased from $16,000 a year in 2005 to $70,000 now, making it just as expensive as new, more effective MS drugs. This is not the result you'd expect from a free, transparent market.

How does this happen? In a market with only a few drugs and a few buyers, none of whom are paying out of their own pockets, price competition can work in reverse. Take the case of Novartis' Gleevec, a lifesaving pill that puts a deadly cancer called chronic myelogenous leukemia out of business. It was introduced in 2001 at a cost of $24,000 per patient per year. Then, in 2006, Bristol-Myers Squibb introduced another drug, Sprycel, for patients who had failed on Gleevec. When Novartis introduced its own successor to Gleevec, it was marketed (at first) to the sick patients treated with Sprycel. So it priced the drug to compete with Sprycel and raised the Gleevec price. The result: Gleevec now costs more than $90,000 a year.

> The situation seems unsustainable, especially with cancer drugs. How can we afford them if they cost as much as a Lamborghini?

Drug company executives defend the price increases. "When you put a drug into the market you've got a relatively small database," said Pfizer Chief Executive Ian Read at the Healthcare Summit. "As you continue to invest in it and when it's in the market, you generate new uses, new indications, and you see its value. You should price drugs to their value. Because that's the way the market works. That's the way you create funds for research."

But the situation seems unsustainable and especially so with cancer drugs. In 2006 Genentech's Avastin was approved for lung cancer at a higher dose than was used in colon cancer, which also meant a higher price. To stem a public outcry, Genentech capped the price at $55,000. Keytruda, the Merck cancer drug that appears to have made ex-President Jimmy Carter's tumors vanish, costs $150,000 per patient per year. Scientists agree that the future is combining drugs like these. How can we afford it if each will cost as much as a Lamborghini?

"I don't know whether it's a one-year, two-year or five-year story, but ultimately it's about affordability as much as innovation," says Andrew Witty, the chief executive of GlaxoSmithKline. "We need to find a balance. I don't know what the answer is. But there needs to be a sensible conversation." F

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the FDA can allow foreign drugs to be imported. Right now the FDA is not allowed to consider price in deciding whether there is a shortage (or any other situation). It should be allowed to. A related thought: When a dramatic price increase happens, allow the FDA to fast-track any generic that comes along.

Pay different amounts for cancer drugs depending on the type of cancer. We pay the same price for a dose of a cancer drug whether it is likely to add years to a patient's life or just weeks. That doesn't make sense. Peter Bach at Memorial Sloan Kettering has proposed changing that so you pay different amounts for Avastin in treating colon cancer versus lung cancer, for instance. Express Scripts says it is going to try it out. "This is a necessary step if we're going to start paying for drugs based on how well they work," says Bach.

Bring down the hammer for rare-disease drugs. One idea floating around Washington: Many new medicines are for rare, or "orphan," diseases. (They're called that because drug companies used to ignore them; not anymore.) Under the 1983 Orphan Drug Act, designed to spur pharma investment in rare disorders, companies are given tax benefits and longer protection from generics if they develop an orphan drug. With big pharma hyper-focused on treating rare diseases anyway, the law should be modified so prices above a certain level take those protections away.

Allow Medicare to negotiate drug prices. In other words, use the U.S. government's buying power to force prices down. The worry here is this could turn into de facto price controls.

Give drug companies skin in the cost-savings game. Novartis is launching a new heart failure drug, Entresto, that reduces the risk of patients landing in the hospital by 21%, according to a large trial published in the *New England Journal of Medicine*. Novartis Chief Executive Joseph Jimenez says he has worked out a deal with insurers where Novartis will get paid extra if patients stay out of the hospital. "It is possible to give some of that value back to the system and to generate enough value for Novartis that my shareholders will say, 'That's a good place to invest,'" Jimenez says. —*M.H.*

BEST SMALL COMPANIES

These 25 Small Giants have chosen to be great instead of big. Here's how we picked them.

All of the companies on this list have had opportunities to get as big as possible, as fast as possible. Growth is good, but the leaders of these companies have had other, nonfinancial priorities as well, such as being great at what they do, creating great places to work, providing great service to customers, making great contributions to their communities and finding great ways to lead their lives. The wealth they create, though substantial, is a by-product of success in these other areas.

To select the companies, we applied the same criteria I used ten years ago when I picked a previous group for my book *Small Giants:*

• The company has been acknowledged as outstanding by those who know the industry best.

• It has had the opportunity to grow much faster, but its leaders decided to focus on being great rather than just big.

• It has been recognized for its contributions to its community and to society.

• It has maintained its financial health for at least ten years by having a sound business model, a strong balance sheet and steady profit margins.

• It is privately owned and closely held.

• It is human-scale, meaning frontline employees have real interaction with top leaders.

There is one other factor. It's what I refer to as mojo, the business equivalent of charisma. When a leader has charisma, you want to follow him or her. When a company has mojo, you want to be connected with it. You want to buy from it, sell to it, work for it. As Justice Potter Stewart famously said about pornography, it's hard to define, but you know it when you see it.

The profiles on the following pages were written by Susan Adams, Peter Carbonara, Darren Dahl, Karsten Strauss and me. —*Bo Burlingham*

Quality Bicycle Products ▶

BLOOMINGTON, MINN.
PRESIDENT: RICH TAUER
REVENUE: $200 MILLION
EMPLOYEES: 700

Founded in 1981 by avid cyclists Steve Flagg and Mary Henrickson, who wanted to help bike stores get tough-to-find mountain bike parts from suppliers in Japan, QBP has become the nation's largest wholesale distributor of bicycle parts and accessories, from helmets and bike racks to crank sets and ball bearings. It also owns seven bike brands, including All-City, Salsa and Surly, a brand favored by urban hipsters. One staffer's sole responsibility is collaborating with lobbyists and nonprofits to advocate for pro-cycling government policies. QBP's four warehouses across the country guarantee that almost all of its 5,400 bike-store customers get parts within one day of ordering. Last May it opened an office and warehouse in Taiwan, where its bike brands are manufactured. In 2015 its head count hit 700, including 24 staffers in Taiwan. "We want the world to be bike-ified," says President Rich Tauer. "We say we want every butt on a bike."

DIGITAL ILLUSTRATION: JEFF MANGIAT FOR FORBES (RICH TAUER BY CHRISTIAN PEACOCK FOR FORBES)

Gainesville Health & Fitness

GAINESVILLE, FLA.

FOUNDER AND CEO: Joe Cirulli

REVENUE: $16.5 million

EMPLOYEES: 480

Joe Cirulli has long believed that the ultimate measure of a fitness business should be the health of the community in which it is situated. In the early 2000s he and his management team set a goal of having Gainesville recognized as the healthiest city in America. They proceeded to mobilize the community to achieve it, and in the spring of 2003 Gainesville became the first and only city to receive the gold Well City award from the Wellness Council of America.

Ask those knowledgeable about the international fitness industry to name the best clubs on the planet and Gainesville Health & Fitness will be on the list. Cirulli travels the world giving talks, for example, on why his centers have customer-retention rates almost 30% higher than the industry average and how he hires and trains the staff that makes such performance possible.

Although utterly without financial resources, he managed to scrape together the $1,700 needed to get his club up and running in 1978. Ever since, he has been relentlessly focused on building, expanding, changing, innovating and, above all, improving his company. He has had endless opportunities to build clubs outside Gainesville but has turned them all down. When asked why, he says simply, "I like Gainesville."

Tasty Catering

ELK GROVE VILLAGE, ILL.

COFOUNDER AND CEO: Tom Walter

REVENUE: $10 million

EMPLOYEES: 90

When an employee recognized that fuel prices were cheapest on Tuesdays and most expensive on Thursdays and Fridays, Tasty Catering changed the way it purchased fuel for its fleet of delivery vehicles and started saving $35,000 a year. That kind of engagement has resulted in profit margins that are nearly double the industry's national average. Engaging employees, most of whom are recruited from the local community, has also kept turnover below 2% in an industry where the norm is around 50%. Meanwhile, Tasty employees have launched 12 ventures of their own with funding help from the company, including a bakery, a gift company and a creative agency. "I get to sit and watch like a proud father as these companies started by our employees continue to do well and deliver tremendous returns," says CEO Tom Walter.

Big Ass Fans

LEXINGTON, KY.

CEO AND FOUNDER: Carey Smith

REVENUE: $202 million

EMPLOYEES: 835

Founded in 1999, industrial fan producer Big Ass Fans could have sought to sell its high-end (and high-priced) wares through big-box retail channels. Instead, founder Carey Smith chose to avoid them, relying on his own army of salespeople to educate customers. In the past several years the company has expanded from the industrial sector into commercial and now residential markets, offering lighting products as well as smaller, sleeker home fans packed with high-tech sensors that sell for as much as $2,495. Today its residential products represent about 18% of company sales and growing. Big Ass Fans' creations are now prominent in the factories and warehouses of customers like Target, Whole Foods, Boeing, Coke and Amazon. "Throughout your day," says Smith, "most of the things you touch have been either manufactured or boxed for distribution under our fans."

ARRON SACCO FOR FORBES

Afterburner

ATLANTA

FOUNDER AND CEO: Jim Murphy

REVENUE: $8.5 million

EMPLOYEES: 21 full-time, 50 contractors

Military imagery runs through everything at Afterburner, from the presentations its employees do in flight suits to the nicknames they sport: Bandit, Gunner, Thor. It's all a pretty clear indication of the small club of people the consulting firm hires. First, if you are going to face clients, you have to be former U.S. military. You also have to have been a member of an elite combat unit: Army Special Operations, Navy SEALs, fighter pilot, etc. And you have to have either an M.B.A. or a significant postmilitary career in business.

Afterburner was founded 20 years ago by Jim Murphy, a former Air Force instructor pilot, who says he's interested only in people with "the warrior ethos." The company's specialty is teaching clients how to define and execute a business strategy with a military-inspired approach to teamwork. Although the firm works primarily with large public companies, Afterburner remains small by design. Murphy says that, where large consulting firms often throw teams of people at clients, he prefers to use a "force multiplier" strategy by deploying just two to four consultants. He'd like Afterburner to be a $50 million company one day. For now he's keeping head count low, partly as a matter of strategy and partly as a matter of preserving the firm's culture.

When he does hire, the first step in the interviewing process is to take the candidate out for a fancy restaurant dinner, the kind a client CEO might host. The interviewee is escorted to the bar to swap military stories with the interviewers. While the Afterburner people are limited to two drinks, the candidate can have as many as he or she wants. At dinner the interviewers watch how the candidate behaves, which fork he or she uses. Murphy says he wants people with the business poise to sit with C-suite clients.

If the dinner goes well, the candidate is subjected to a round of interviews and then required to give two short presentations to Afterburner staff, some of whom give as many as 250 presentations to clients every year. The first presentation topic is always military, Murphy says, "like teaching an F-16 pilot how to drop a 2,000-pound bomb." The second is on business. The candidate has 20 minutes to prepare, and each presentation must be precisely three minutes long. If he or she is accepted, there's still a three-month probation period after that.


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Blink UX

SEATTLE

COFOUNDER AND CEO: Karen Clark Cole

REVENUE: $12 million

EMPLOYEES: 70

Every year as many as two employees who best embody the values of Blink UX are chosen to become partners in the business, a consultancy that advises clients like Microsoft, Starbucks and Amazon on ways to improve their digital interaction with customers. While CEO Karen Clark Cole says the equity shares doled out are small, they are meant to show how much employees are appreciated. When the company, which has never had outside investors, hires people, Cole says it tells them, "We want you to retire here." She is also transparent about finances: "Anybody can find out anything they want to know about the company." Still, not everyone fits. Cole recently fired two public relations specialists: "They didn't have the same work ethic. We work really hard."

Service Express Inc.

GRAND RAPIDS, MICH.

CEO: Ron Alvesteffer

REVENUE: $59 million

EMPLOYEES: 290

When workers join SEI, which does on-site maintenance for companies' data centers, including repairs, troubleshooting and installations, they meet with a manager to lay out their personal, professional and financial goals. These may include buying a first home, visiting distant parents, attending a child's Friday football games or relocating to another city. When one employee expressed an interest in living in Nashville, for example, the company opened an office there. Managers meet with workers twice a year to reassess goals and offer support. CEO Ron Alvesteffer says the focus on employees has resulted in a yearly turnover rate of less than 10% and a customer retention rate of 98%. The theory, he says, is simple: "Take great care of your people and they'll take great care of your clients."

Redmond

HEBER CITY, UTAH

CEO: Rhett Roberts

REVENUE: $65 million

EMPLOYEES: 320

When a 1958 drought decimated their farm, brothers Milo and Lamar Bosshardt turned to mining the rich salt beneath it. In 1992 the family brought in Rhett Roberts, who repositioned Redmond's reddish-hued salt as a premium product, emphasizing how it melted at a lower temperature than conventional white salt and boosting efforts to market it as superior for the dinner table. In 1999 Roberts bought the company and became CEO, doing away with titles and instituting a profit-sharing program that divvies up 10% of the firm's net income among employees. He also opened up the company books, informing all employees about sales and profits.

ENT Institute

ATLANTA

FOUNDER AND CEO: Jeff Gallups

REVENUE: $27 million

EMPLOYEES: 189

ENT Institute is a 17-location medical business in the Atlanta area that attracts doctors from across the country who specialize in treating ear, nose and throat ailments. Founder and CEO Dr. Jeff Gallups says his model allows him to charge less and pay top performers much more than they could earn in a regular private practice: "We have five docs who are making over a million a year." Unlike most hospitals, ENTI posts prices for its procedures on its website. A tonsillectomy for an adult, for instance, will cost about $2,300, compared with a national average of about $4,000. ENTI can charge less because, unlike a general hospital, it has no moneylosing departments (like an emergency room) to support. Gallups has been buying practices and plans to expand into neighboring states. "I'm not calling them," he says. "They're calling me."

New Belgium Brewing ▶

FORT COLLINS, COLO.

CHAIRPERSON AND COFOUNDER: Kim Jordan

REVENUE: $225 million (est.)

EMPLOYEES: 685

Back in 2013 the employees of New Belgium Brewing were called to an all-hands meeting, where Kim Jordan, the company's cofounder and then CEO, took the stage to deliver big news. She told her employees she had just sold the company, a revelation that produced gasps. To whom? She asked the employees to open the envelopes that had been left on their chairs. Inside they found a mirror, which was Jordan's way of announcing that she had sold the company to them.

Today New Belgium is owned entirely by its employees through a stock-ownership plan and is widely recognized as a case study in progressive management. It is a certified B Corporation and gets high marks for sustainability: Its Fort Collins brewery produces 18% of its electricity on-site, and the company wins lots of awards for its culture. New Belgium has also been generous in its contributions to bicycle- and eco-focused organizations. Jordan, a former social worker who founded the business with her now ex-husband in 1991, says she saw the company, which grew out of her basement, as a learning lab where she could experiment with sharing equity, collaborating with other craft brewers and using profits to promote learning about the environment. But to do that, Jordan understood that the company would first have to do well financially.

Early on New Belgium adopted the practice of open-book management, teaching its people how to read and interpret the financial performance of the business. "If you ask people to think and act like owners, you need them to understand how the business runs," says Christine Perich, who took over as CEO in 2015. "There is a lot of power in that. If you can teach people what drives the business, then you can get everyone heading in the same direction instead of guessing."

AARON SACCO FOR FORBES (LEFT); DIGITAL ILLUSTRATION: JEFF MANGIAT FOR FORBES (CHRISTINE PERICH BY CHRISTIAN PEACOCK FOR FORBES)

CEO Christine Perich

Cue Ball Group

BOSTON

CEO: Tony Tjan

ASSETS UNDER MANAGEMENT: About $200 million

EMPLOYEES: 12

Cue Ball is attempting to reinvent venture capital—by not promising investors quick returns. It is adopting a Warren Buffett buy-and-hold strategy. Instead of hoping that one or two out of ten investments might succeed, it is aiming for ten out of ten. *(See p. 98.)*

Abt Electronics

CHICAGO

CO-PRESIDENTS: Jon, Michael, Billy and Ricky Abt

2015 REVENUE: $400 million (est.)

EMPLOYEES: 1,404

Abt Electronics is one of the last examples of a nearly defunct species of business: the family-owned, single-location electronics and appliance retailer. Jon Abt, one of four brothers who currently run the business, says Abt has survived the onslaughts of Best Buy and Amazon by truly providing what many businesses only talk about: great customer service. It also has a big, beautiful store—70,000 square feet—with tremendous selection.

◀ Balsam Brands

REDWOOD CITY, CALIF.

FOUNDER AND CEO: Thomas "Mac" Harman

REVENUE: $90 million

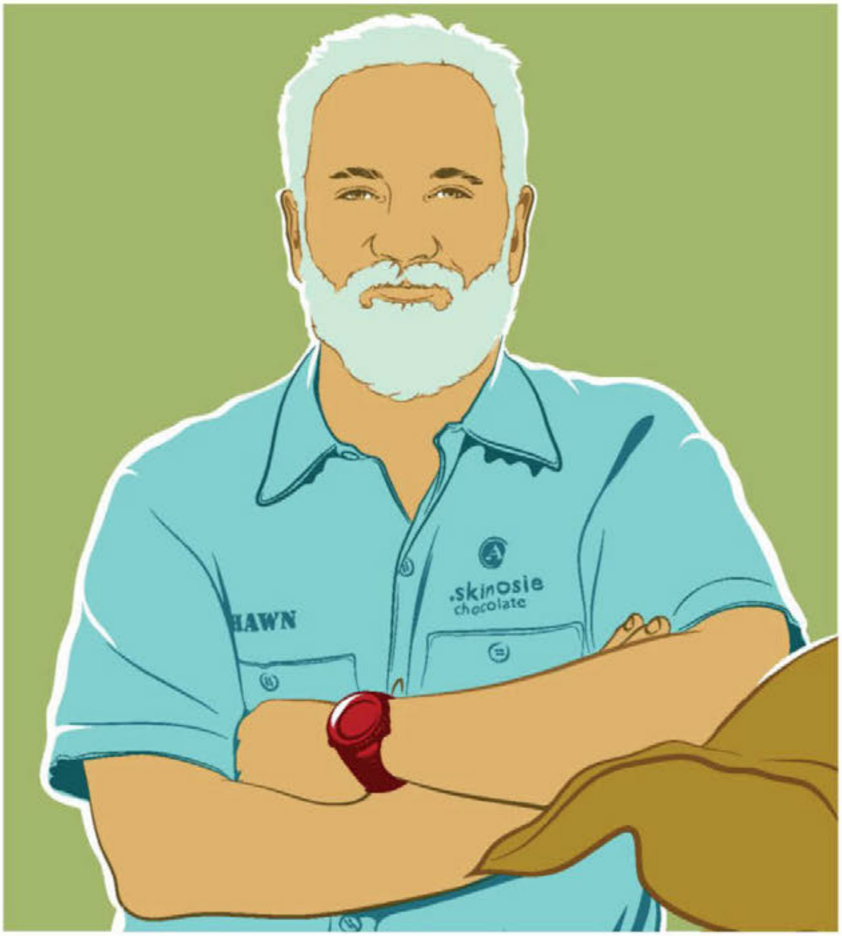
EMPLOYEES: 120

Balsam Brands has succeeded despite selling the most seasonal of products and charging far more than its competitors.

Mac Harman got the idea for the business shortly after he graduated from Stanford Graduate School of Business and noticed that his in-laws' fake Christmas tree didn't look much like a tree. He traveled to China, met with a tree manufacturer and designed 16 models based on real varieties like Norway spruce. By October 2006 he had more than 5,000 trees shipped to the U.S., where he opened a pop-up store in the Stanford mall. He also set up a website, and in the space of a month he grossed $3 million. Since then he's expanded his selection of trees, some of which sell for upwards of $2,000, and added wreaths, garlands, ornaments and other products.

Unlike other Silicon Valley companies, Balsam offers no on-site meals or sleep pods. Instead it's housed in a second-story office that doesn't even have a coffee machine: "I wanted my people to get some fresh air and support local coffee shops." Half of his 120 employees are based in the Philippines, where he's found talent in marketing, operations, Web development and graphic design. In 2013, when Typhoon Yolanda struck, one employee was living in a village that was in the storm's path. Harman spent $30,000 to charter a rescue helicopter. When the employee texted that he was safe, Harman used the helicopter to deliver 2,000 pounds of food to storm-struck areas.

AARON SACCO FOR FORBES (RIGHT); DIGITAL ILLUSTRATION: JEFF MANGIAT FOR FORBES (THOMAS HARMAN BY CHRISTIAN PEACOCK FOR FORBES)



Askinosie Chocolate

SPRINGFIELD, MO.

CEO AND FOUNDER: Shawn Askinosie

REVENUE: $1.8 million

EMPLOYEES: 17

In 2005, after 20 years as a criminal defense attorney, Shawn Askinosie turned to making chocolate. What really distinguishes Askinosie Chocolate is how it works with farmers in Ecuador, Tanzania, Honduras and the Philippines who supply the cacao beans used to make its chocolate. Askinosie sees those farmers as business partners and includes them in a profit-sharing program that distributes up to 10% of company profits. Because he doesn't blend chocolate from different suppliers—each batch of chocolate can be tied directly to a single source—Askinosie created a system where farmers get a percentage of final sales of their chocolate. Every year he makes several pilgrimages to bring his suppliers translated copies of his financial books. In Tanzania, where cacao beans are a commodity, his farmers had never tasted chocolate before.

Fresno First Bank

FRESNO, CALIF.

CEO AND PRESIDENT: Steve Miller

REVENUE: $12 million

EMPLOYEES: 33

Founded in 2005 to serve the banking needs of small businesses, Fresno First Bank has deliberately remained in a single location rather than opening additional branches. Not only has that kept costs under control, but it also allows the bank to retain a flat organizational structure so it can respond quickly to customer needs. Employees get additional motivation from an annual contribution of approximately 8% of total salaries to an employee stock-option plan.

Zifty.com

ATLANTA

PRESIDENT AND FOUNDER: Todd Miller

VICE PRESIDENT: Jennifer Peté

REVENUE: $8.3 million

EMPLOYEES: 107

Zifty stands out in the increasingly crowded field of restaurant- and grocery-delivery services because it's been around since 2003. Founded by Todd Miller, it offered customers real-time tracking of orders before any of its competitors. It has grown without taking outside investments or incurring debt (apart from a mortgage). "Every time we made a little bit of money," Jennifer Peté says, "we put it back into the business." And in a high-turnover field, the company has managed to attract and keep good drivers. A third have been with the company for more than a year and 19% for more than two years. Instead of hiring contractors, says Miller, "we use the W2 model."

Radio Flyer ▶

CHICAGO

CEO: Robert Pasin

REVENUE: $110 million

EMPLOYEES: 101

Antonio Pasin, who had learned cabinet-making on a Venetian estate, started manufacturing a wooden toy wagon in Chicago in 1917, first calling it "Liberty Coaster" for the Statue of Liberty, then changing the name in the late 1920s to Radio Flyer, to capture the fascination with early radio broadcasts and airplane flights. He then pioneered the technique of stamping wagon parts out of steel, earning him the title "Little Ford" from suppliers.

But Pasin's son Mario, who took over as CEO in 1970, allowed the business to stagnate. Competitor Little Tikes introduced a popular plastic wagon, while Radio Flyer stuck with old-fashioned wood and steel. In 1997 Mario's son Robert took charge. Only 28 at the time, he'd worked in the factory and warehouse since he was a teenager and had a passion for the product. "This brand is really beloved," he says. "People tell you stories about playing with a wagon with the people they love."

Pasin got to work overhauling the product line. His designers fumbled with plastic at first, introducing a push-pull model that flopped. "We made mistakes trying to be different from the competition," he says. Then they hit on the Pathfinder, which has seats that flip up and down, and it remains a bestseller. He also introduced scooters, tricycles and a four-wheeled contraption called a Ziggle, which kids operate by wiggling. Wagons have gone from 100% of sales to just a third. In 2002 Radio Flyer opened an office in Shenzhen, China, where it now manufactures two-thirds of its inventory.

After taking a seminar on staff selection from University of North Carolina business school professor Gerald D. Bell, who runs a leadership institute, Pasin introduced a rigorous hiring process. New "flyers," as they are called, complete a writing assignment in which they describe three successes and one failure, and they come up with 15 questions they want to ask about the company. Pasin interviews every candidate. Once they're hired, all employees, including customer service reps and administrative assistants, can give their feedback on new product designs.

McRoskey Mattress

SAN FRANCISCO

CEO: Robin McRoskey Azevedo

REVENUE: $7.2 million

EMPLOYEES: 30

In 2003 Prince Charles stayed at a bed-and-breakfast in Marin County, Calif. and on his departure told the proprietress she should order McRoskey mattresses for all the rooms. Which she did for most of them. McRoskey mattresses, judging from the comments of customers and online reviewers, are practically a religion for their owners, even those who are not royalty and even though they cost $5,000 for a queen-size and $6,000 for a king. The 30 employees continue to make the mattresses meticulously, even forming the coils and building the inner spring units onsite because they're more comfortable and last longer than any the company could buy. Of the 30 employees, 15 have been there for 15 years, 2 for 20 years and one for 36 years. CEO Robin McRoskey Azevedo is the granddaughter of one of the founders.

Torch Technologies

HUNTSVILLE, ALA.

COFOUNDER AND CEO: Bill Roark

REVENUE: $240 million

EMPLOYEES: 460

At most companies, proposals for government contracts are handled by senior managers. At Torch Technologies, which is 100% employee-owned and provides engineering services such as missile-systems modeling and simulation to the U.S. Army, everyone is encouraged to participate. Proposal teams range from one person who works a few hours each evening for a week to teams with 40 to 50 people who work extra hours for two months to help win bids for contracts, which range from $75,000 to $100 million. The result: Since the company's founding in 2002, sales have grown at an annual clip of 35%. In Huntsville Torch renovated several decaying buildings to use as its headquarters.

Integrated Project Management

BURR RIDGE, ILL.

FOUNDER AND CEO: C. Richard Panico

REVENUE: $29 million

EMPLOYEES: 145

Rich Panico learned from his father that "anything you do, you should do to last," and so—even before he started Integrated Project Management in 1988—he resolved to build it to last 100 years. With that in mind, the first person he hired was someone who could replace him if he couldn't continue for any reason. (She's still his second in command.) Since then Panico and his team have built a company that's won so many awards for excellence he doesn't know where to put them. They have done it by implementing state-of-the-art management disciplines, such as an annual planning process in which all 145 full-time employees are actively involved. Along the way, Panico has been a pioneer in professionalizing an industry that was in its infancy when he started.

AARON SACCO FOR FORBES (LEFT); DIGITAL ILLUSTRATION: JEFF MANGIAT FOR FORBES (ROBERT PASIN BY CHRISTIAN PEACOCK FOR FORBES)

Headsets.com

SAN FRANCISCO

FOUNDER AND CEO: Mike Faith

REVENUE: $26 million

EMPLOYEES: 44

It sometimes takes a crisis to discover the true character of a company and its leaders. Driven by legendary service and a fun-loving culture—"Be whacky" was and is a core value—Headsets.com had grown rapidly, reaching $30 million in revenue by 2007. But customers stopped buying in the recession, and sales dropped by a third. Although CEO Mike Faith had to lay off 30 of his 70 employees, he found new jobs for almost all of them. And the company is now doing better than ever.

Air Force One

COLUMBUS, OHIO

CEO: Greg Guy

REVENUE: $30 million

EMPLOYEES: 160

Air Force One has become a regional giant despite its local focus. The company provides heating, ventilation and air-conditioning services to large, owner-occupied commercial buildings. CEO Greg Guy, whose father founded the company, says that most of his competitors are small operators with maybe $5 million in revenue, but his ambition is to keep growing. Employees, Guy says, are attracted by the company's commitment to transparency and teamwork. Air Force One recently stopped paying its sales staff commissions, which Guy says pit "department versus department and salespeople versus salespeople." Instead, each of the company's six divisions shares in the profits if it meets or exceeds its financial goals. In 2014, the first full year after abandoning sales commissions, Air Force One exceeded its annual sales goal by 20%.

◀ West Paw Design

BOZEMAN, MONT.

CEO: Spencer Williams

REVENUE: $10 million

EMPLOYEES: 70

West Paw Design is one of the companies defying the conventional wisdom that you can't manufacture in the U.S. anymore. In fact, 99% of the company's pet toys and beds, which use nontoxic, organic or recyclable materials, are made in Montana, which can hardly boast a legacy of manufacturing. The company has even sourced materials from its customers, who send back old pet chews to be recycled into new products made of a material the company calls Zogoflex. The sustainable approach helped make West Paw the first company in Montana to be certified as a B Corporation. "Our vision is to create a world where business success is friendly to people and the planet," says Spencer Williams, who was 23 when he bought the business in 1996. He has implemented open-book management and a companywide profit-sharing plan.

Bi-Rite Market

SAN FRANCISCO

FOUNDER: Sam Mongannam

REVENUE: $44 million

EMPLOYEES: 300

Bi-Rite Market sets the standard for grocery stores that champion locally sourced products grown by small producers. It offers all staffers, including part-timers, health insurance, a 401(k) with a 4% match and profit-sharing. Sam Mongannam's father and uncle ran the flagship store in San Francisco's Mission District until they sold out in 1989. Trained as a chef in Switzerland, Sam and his brother Raphael bought the business back in 1997, installing a kitchen that smokes its own salmon and mixes hummus from their mother's recipe. Sam rid his shelves of two bestsellers: farmed salmon and yellowfin tuna, which is overfished. In 2006 he opened Bi-Rite Creamery & Bakeshop. Honey comes from Bi-Rite hives on the market's roof. In 2008 it started its own farm in Sonoma. The Mongannams also run a catering company, Bi-Rite Catering, and a nonprofit that offers free and subsidized cooking and nutrition classes.

Innotec

ZEELAND, MICH.

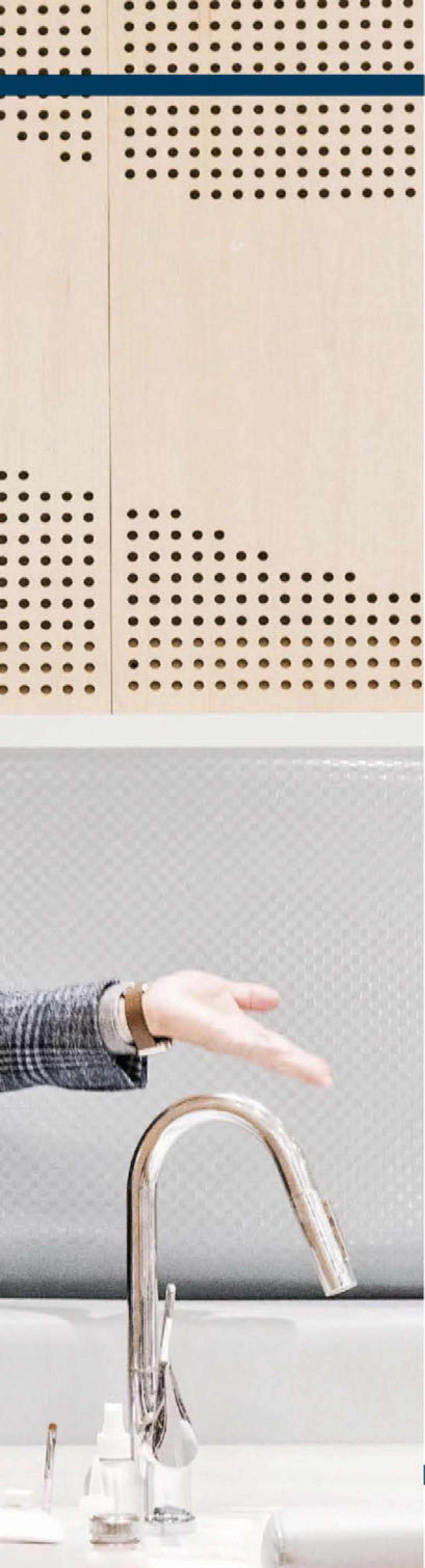
PRESIDENT: Mike Lanser

REVENUE: $90 million

EMPLOYEES: 400

Innotec, which makes lighting, applied metals and power-distribution products for the automotive, office-furniture and retail-lighting markets, uses a flat, decentralized organizational structure that gives each of its manufacturing lines, called "cells," control over its own P&L and balance sheet. Those cells then report their operational and financial results to the rest of the company every month. Owned in part by an employee stock-option plan, Innotec has more than 20 U.S. patents and manufactures products in the U.S., China, Europe and Mexico. The employees take a similar approach to giving back. For instance, the company helped launch a charter school in Zeeland called Innocademy, where teachers, rather than administrators, run the schools. Innotec also helped fund and organize a well-drilling project in Nigeria that is providing clean water to more than 140,000 people.

AARON SACCO FOR FORBES (RIGHT); DIGITAL ILLUSTRATION: JEFF MANGIAT FOR FORBES (SPENCER WILLIAMS BY CHRISTIAN PEACOCK FOR FORBES)



BUILDING A BETTER STARTUP

Cue Ball Group went looking for the next Starbucks and found a fresh approach to venture capital—one that emphasizes entrepreneurs over exits.

BY BO BURLINGHAM

John Hamel remembers the precise moment it hit him. Driving through his hometown of Revere, Mass. on a warm summer day in 2005, he noticed a nail salon to his left. He drove a little farther and saw another, then another. With each one he grew more excited. This could be it: Nail salons! Right under our noses!

His only concern was that his colleagues at the Boston-based Cue Ball Group might laugh at him. Hamel and CEO Tony Tjan had been looking intently for a business to start, even flying to Hong Kong and Tokyo to check out the possibilities. Lately they had focused their attention on identifying a business that could be, in their words, "Starbucked." By that they meant a fragmented industry offering a product or a service that a new company could improve upon and start charging premium prices for—as Starbucks had done with coffee.

But Hamel's partners did not laugh. And in March 2007, after extensive research, they launched a new company, MiniLuxe, opening its first salon in nearby Newton Centre. Like the subsequent MiniLuxe shops—there are now 12 and counting—it was brightly lit, immaculately clean and mercifully free of the noxious fumes endemic to such establishments. For "an unparalleled focus on hygiene, cleanliness, and quality," the partners believed, customers would pay $19 for a manicure, as opposed to $13 in the corner salon or $30 in a spa.

Nine years later MiniLuxe continues to hone its model and its support systems, but it long ago proved the concept: Its salons have all been profitable, and its growth potential appears large. But there's another side to the MiniLuxe story, and it has to do with Cue Ball, which wasn't even a year old when Hamel had his revelation

Tony Tjan in a MiniLuxe nail salon. He expects the chain to double in size this year.

JAMEL TOPPIN FOR FORBES

in Revere. At the same time they were searching for a business to Starbuck, the founders were also trying to figure out Cue Ball, which was essentially an empty holding company controlled by a handful of smart friends. They had talked vaguely about creating a "mini-Berkshire Hathaway," patterned after Warren Buffett's conglomerate. Once they had MiniLuxe up and running, they hoped it would serve as a platform to build on.

But to build what? They knew only that they wanted to work with good people and interesting business ideas. As it turned out, Cue Ball eventually morphed into one of the most unusual venture capital firms in America. For one thing, it's relatively small, with just 12 employees and a portfolio of 21 companies (6 others have been sold). For another, Cue Ball doesn't charge its investors the usual percentage of assets under management as a fee. Instead, Cue Ball's management expenses come out of profits. That is, Cue Ball gets paid the same way its limited partners do. As for its own assets under management Tjan won't reveal the exact size except to say that it's about $200 million and that the fund manages cash flow to make sure it always has $100 million in "dry powder," ready to be put to work.

Most interestingly, decisions about buying and selling portfolio companies aren't driven by artificial timelines. Investors commit their funds indefinitely, and the entrepreneurs who receive the capital manage their companies as they see fit with the goal of building long-term value. The Cue Ball partners believe that, over time, they can generate better returns this way. Whether or not they can, it's a radically different way to fund and build startups—and an instructive small-business story in and of itself.

CUE BALL DOESN'T MAKE EXIT DECISIONS BASED ON ARBITRARY TIMELINES.

TEN YEARS BEFORE FACEBOOK
Cue Ball came together in a dining hall at Harvard College. Hamel and Tjan, both Class of 1994, lived in Winthrop House, an undergraduate residence where they also took meals. The talk often turned to business, even though they were both biology majors who seemed headed toward careers in medicine.

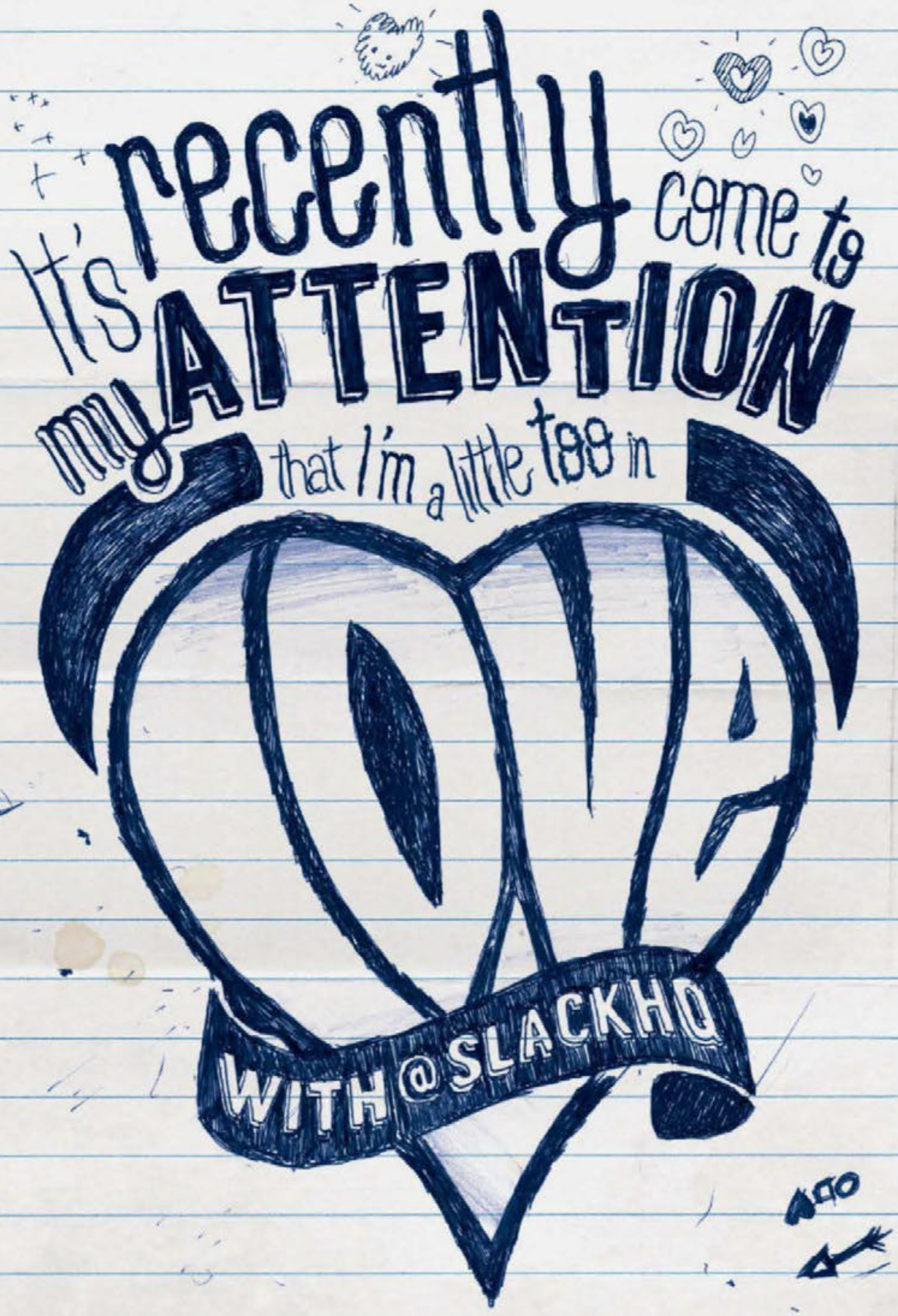
As sons of immigrant parents—Hamel's from Italy, Tjan's from Indonesia—they had a common bond, but they'd taken different routes to Harvard. Hamel had grown up in blue-collar Revere. His parents owned a travel agency in Boston's Italian North End. He went to public school until the eighth grade and then entered an all-boys Catholic college preparatory school. He was the only student from his class to be accepted at Harvard.

Tjan was born in Montreal, where his parents had emigrated from Taiwan and where his father was completing his residency in ear-nose-and-throat surgery. After a year or so the family moved to Newfoundland. There, by the age of 13, Tjan was selling computers. At 14 he was leasing billing systems to doctors' offices. At 15 he entered boarding school in Toronto, where—even before beginning classes—he hawked picture frames. At 16 a friend introduced him to the sketchy multilevel marketing company Nu Skin, where Tjan managed a squad of adults. The most important lessons he learned through it all had to do with people. He developed a knack for collecting them, especially mentors.

After Harvard, Hamel returned to his high school and taught for two years before moving on to a business and technology consulting firm. Tjan went to work at McKinsey & Co. in Toronto. In early 1996 he started ZEFER, an Internet advisory company and app developer that grew to almost 1,000 employees and beyond $100 million in revenue—all while Tjan was earning his Harvard M.B.A.—before being hit hard by the dot-com crash of 2001. Eventually the company's assets were sold to NEC.

Throughout this period he continued to find mentors, including Dick Harrington, president and CEO of the Thomson Corp., whom Tjan advised. He became increasingly convinced that success in business boiled down to one factor: human capital. If you had the right people with the right vision, provided them with the right support and allowed them to pursue their goals, there was no limit to what could be accomplished. Many of his friends shared that belief, and in the mid-2000s three agreed to team up with Tjan to start Cue Ball. Hamel was one. Another was Dick Harrington, who came on as chairman and general partner. They were joined by Mats Lederhausen, former head of global strategy at McDonald's, whom Tjan knew from a World Economic Forum event and whose passion was purpose-driven businesses. Cue Ball, Lederhausen decided, fit the bill.

So, it turned out, did MiniLuxe. As Hamel and Tjan learned more and more about nail salons, they realized they had an opportunity not only to "Starbuck an industry" but also to serve as a refuge for people who worked in it. Most of the nail technicians MiniLuxe hired would come from the thousands of small independent salons, or "chop shops," around the country. The vast majority of those shops used nail treatment products containing chemicals some believe to be responsible for elevated rates of cancer, birth defects, skin disease and respiratory ailments among salon employees. And the industry was rife with exploitative labor practices. "We were trying to disrupt an industry nobody had thought of disrupt-


It's recently come to
my ATTENTION
that I'm a little too in
love
WITH @SLACKHQ

John Hamel suspected the nail salon industry could be "Starbucked."

ing," says Hamel, "and what's come out of it is a business that's a perfect fit for what Cue Ball is all about." It was also a model for the type of business Cue Ball wanted to invest in.

SHAPEUP IS ANOTHER prototypical example. Rajiv Kumar and a partner started it while enrolled in Brown Medical School. They later dropped out, thinking they could help more people with a wellness program than they could by practicing medicine. When they returned to school, they hired a CEO to run the company while they completed their degrees. That CEO introduced Kumar to Tony Tjan in the summer of 2010.

By this time Cue Ball had decided to invest in like-minded entrepreneurs rather than spin out businesses itself. And ShapeUp fit the criteria. Sales were booming, and the company, which provides software as a service to businesses that believe employee wellness is worth paying for, was growing 35% to 40% per year. Kumar had interviewed numerous VC firms. From the start he was drawn to Tjan and his colleagues. "My impression was that these were incredibly sharp individuals who collectively had a wealth of business experience I did not have, and they were folks who really saw the promise of ShapeUp and could connect viscerally with the purpose of our company," Kumar says. "They didn't simply see an opportunity to make a lot of money."

And there was something else that struck him about Cue Ball. "They seemed to be interested in investing in people, as opposed to companies and business models. I looked at their portfolio and said, 'Wow. You've got a burger company, a nail salon company, a fashion and design business, and here we are in health and wellness.' It took me a moment to figure out how we would fit in, but then I realized that we fit in on mission, purpose and the fact that we are good people, or so I like to think."

Cue Ball and health-care-based VC firm Excel Venture Management invested \$8 million of equity financing in 2010 and 2011; Cue Ball added \$5 million more three years later. Most important, they made the equity investments without even discussing an exit plan. Kumar aspires to build a company that can survive, thrive and remain independent long after his departure, whether it be voluntary or feet first. "We have never had any pressure from either of our venture capital funds to sell the business on any arbitrary timeline," says Kumar.

That's generally the case with the companies in Cue Ball's portfolio, and it isn't just because Tjan, Hamel, Harrington and Lederhausen are nice guys. Rather it reflects their conviction that you will do more good in the world—and over time earn better returns—if you value human capital first. From the beginning they raised money from investors who either shared that view or were at least willing to take a chance on it. "I was intrigued by what Tony had built in terms of a team and a network, what he calls the Cue Ball Collective," says Brian Chu, a wealth investor whose firm manages endowment assets. "He's very high-energy and very mission-oriented, and I think that combination speaks even to some of the grizzled or cynical investment giants in his network."

Cue Ball Capital has an unconventional investment structure. It's a so-called evergreen fund—one without a

fixed lifetime. There are a few others—notably, General Atlantic and Sutter Hill—but they constitute a tiny minority of all private equity and VC funds. At certain agreed-upon intervals—in Cue Ball's case, every five years—a window opens during which a limited partner can withdraw all or part of its capital, based on the intrinsic value of the fund's holdings, as determined periodically by the fund's management working with outside accountants and auditors.

Obviously, investors need a great deal of trust in the evergreen fund's management, not only to make good investments but also to value them correctly as time goes along. Of course, investors in traditional VC funds also have to trust the management to make good investments, but they earn their returns when the portfolio companies are sold and the fund is liquidated. To that extent, the time limit on funds makes life simpler for the limited partners, who know how long their capital will be tied up and can rely on the market to determine their returns. But that same time limit creates obstacles for the portfolio companies, which may be one reason such a small percentage of venture-backed startups ultimately succeed.

Chu, for example, had no trouble understanding why an evergreen fund was crucial to Cue Ball's plans. The example of MiniLuxe made that clear. "I think it's got huge potential," he says. "But it's taken nine years to get this far. Now suppose it was getting its funding from a typical fund that you and I were running. We'd have a three- to five-year investment period before we started harvesting. We probably would have just stopped investing and shut the thing down. We wouldn't have given it enough time to develop at its own pace.

"Or take the opposite situation. Let's say MiniLuxe was growing very fast, and the rollout is going great. We're up to 40 stores. Now we look at it and say, 'We've got to post a number. We've got to show our investors how good we are.' So we flip it to another private equity firm, and maybe the company triples its size again. In the big picture, our decision to sell makes no sense. If you have a company you believe in and it's working, you shouldn't sell it. You should keep it. Like Buffett says, 'When I buy a company, I own it forever.' "

So far, so good. It's still early to judge how Cue Ball is doing, but Tjan expects MiniLuxe to double in size this year, and its mature stores are hitting $1,000 in sales per square foot. All but two of the portfolio companies, he says, have had strong year-over-year revenue growth. Of the six companies that have been sold, there was at least one loser, but Tjan says that the winners have returned "multiples of original capital invested."

ON AN UNSEASONABLY warm day in November, Tony Tjan is sitting with a couple of colleagues in the meeting room of Cue Ball's small suite of offices overlooking Faneuil Hall Marketplace in Boston. They're putting together a list of names in connection with a new Cue Ball project that, for the time being, Tjan is calling "The Good People Initiative." Ultimately it will be a book and a media portal.

"LIKE BUFFETT SAYS, 'WHEN I BUY A COMPANY, I OWN IT FOREVER.' "

The project is a sequel to an earlier book, *Heart, Smarts, Guts, and Luck,* which grew out of a set of videotaped interviews Tjan had done with entrepreneurs. Now he is investigating a subject that has intrigued him all his life, namely, what is it that makes great people great? This is not an academic question for him. His purpose in life, he says, is to be with and work with great people to try and do great things. The spirit of that quest imbues Cue Ball and seems to have a magnetic effect on people who come in contact with it.

Take Tony Pino, who now does business development for MiniLuxe. He'd been working for Cue Ball in one capacity or another since the summer of 2008, when he was between his sophomore and junior years at Harvard. The following summer he worked for Blackstone, while he applied—with Tjan's help—to Harvard Business School. He was accepted but elected to defer. By then he had turned down job offers from Blackstone, McKinsey, Boston Consulting Group, Bessemer Venture Partners and Insight Venture Partners. Tjan eventually called with an offer that paid far less than any of the others. Pino took it. "Three reasons," he says. "I saw Tony and John as the type of men I wanted to be. Second, I really felt that I would learn more at Cue Ball. And the third thing is, I like the work."

Or consider the session Cue Ball runs every year at Harvard Business School during recruiting season. It's billed as a "non-recruiting recruiting event" and geared as much toward career counseling as it is to finding new employees or interns. It has become one of the most popular of such sessions at the school. In 2014 the turnout was so large that students sat on the floor and in the aisles. An administrator warned that this was a violation of the fire code, and the students had to be moved.

Whether the company succeeds in revolutionizing the venture capital business remains to be seen, but it is already displaying some special qualities that few VC firms, if any, can match. Call it mojo. Tjan thinks it has something to do with size. "So many aspects of this firm have a boutique-like flavor," he says. "I'm talking about the magic and the spirit that you find in some small organizations." He doesn't want to lose it. "We want to institutionalize the boutique as we grow, without making the boutique into an institution."

Sounds like a small giant. F

Grape Expectations

As the founder of Terroir Capital, Charles Banks has cultivated the ultimate winery collection, managing a $200 million portfolio of vineyards and hotels around the world.

BY RICHARD NALLEY

Glass act: Charles Banks, photographed in the wine cellar at Bones Restaurant in Atlanta, keeps the top price of wines in his portfolio at about $100 a bottle.

In 2010 investor Charles Banks and billionaire real estate and sports entrepreneur Stan Kroenke dissolved their joint ownership positions—not altogether amicably—in a high-profile, ultraluxury lifestyle portfolio that included Napa's Meadowood Resort, The Napa Valley Reserve and that paragon of wine-collector frenzy, Screaming Eagle Winery. Banks, now 48, would soon prove that there are indeed third acts in American lives.

As the founder and managing partner of Terroir Capital, which manages about $200 million of assets in hospitality and wine, the Atlanta-based Banks has gone on a largely below-the-radar buying spree over the past five years that has given him a mixed shopping cart of winery holdings from California to France to New Zealand. They include a worldwide, 150,000-case value brand from South Africa (Mulderbosch), a faded doyenne from Napa Valley (Mayacamas) and tiny, collector-cult iconoclasts such as Sandhi and Wind Gap.

If the thread binding these disparate wineries isn't entirely evident to outsiders, it is as clear as a Chablis to Banks. "We are looking for definitive projects," he says. "We always ask, 'Can we be a game changer here?'" He is, to hear him tell it, the wine world's Man With the Plan.

Banks' self-confidence was already firmly grounded back in his 30s, when he was known as the guy seemingly bent on the creative destruction of Screaming Eagle. He was an outsider to the wine establishment then, a moneyman from CSI Capital Management, whose high-profile client roster included NBA stars such as Kevin Garnett. True, he had already

EVAN KAFKA FOR FORBES

founded luxury-priced critics' darling Jonata Winery in partnership with billionaires Gerald Levin and Arnon Milchan. Six years later, in 2006, Banks recruited Kroenke to buy Screaming Eagle, which produced one of the most expensive wines in the New World. Banks was not exactly paralyzed with awe.

After filing the deed to Screaming Eagle, "I drove straight to David Abreu's yard," he recalls, and told the Valley's most prominent viticulturist to roll out his bulldozers. "We are taking out 70% of the vineyard there, day one."

Abreu was dumbfounded, but Banks was adamant: "Start the bulldozers."

"I tore out 70% of the grapes because 80% of the grapes were being sold to other producers anyway," Banks explains. "It was a 59-acre vineyard, and only a couple of acres were going into Screaming Eagle. And if I tore out the vineyard, I got out of the evergreen contracts on those acres."

More important, "there was the perceived scarcity. We weren't actually going to make less wine; in fact, we were going to make more wine. But everybody thought we were going to make less because we tore out those vineyards. It allowed us to triple the price in three years and more than double production, and nobody knew. Screaming Eagle was at $250 a bottle when we bought it, $850 when I got out. And production went from 500 cases to about 1,500."

Banks hasn't attempted to replicate that level of price appreciation in his post-Screaming Eagle life. The most expensive current releases in his portfolio now are priced at around $100 a bottle. (Some reserve bottles are $300.) Pushing the envelope on prices, as he sees it, was a tactic from the last war; Banks is preparing to fight the next one.

In his view the high-end wine world is evolving away from extravagance toward authenticity and discovery. In his new endeavors Banks is operating from a different paradigm—he is searching for deep insider cred, turfing out underappreciated properties with a story to unfold.

"I saw an opportunity for us to make some real changes in this business," he says, "to centralize a marketing platform. It is almost an incubator, a venture capital model, where I can find a guy like Bob Lindquist at [Santa Barbara's] Qupé and let him focus on the cellar, where he is unparalleled, and we handle sales and marketing. Over the past five years we've built a national platform that has seven regional sales directors with three district managers under them."

These dedicated salespeople work in parallel with the distributors, essentially doing the missionary work the wholesalers themselves aren't equipped to handle. "Goal number one is to be our distributors' favorite supplier," Banks says. And then to reach beyond, to tell these brands' stories to the retail tier and the consumer.

His winery ventures currently provide revenues of about $35 million, but Banks recognizes this is a long-term process. With his latest project, Napa Valley's 127-year-old Mayacamas Vineyards, he and his partners, the Schottenstein family, have taken on another significant challenge. Antiquated and backbreaking to farm with its steep, stony vineyards—and somewhat faded in consumer memory from its glory days—Mayacamas is a place where, he admits, "we will be writing checks for years."

Not all of his partners are enjoying the ride. NBA star Tim Duncan, who has invested with Banks for nearly two decades, is now suing him for breach of trust over a series of deals, including some winery investments. (Banks, who denies any wrongdoing, says, "We are proceeding aggressively to have his claims litigated.")

But Banks finds satisfactions other investors may overlook. Like the day when celebrated winemaker Andy Erickson, newly installed at Mayacamas, came and thanked him for buying a new, punishingly expensive high-tech grape sorter—and then asked to return it.

"That was pretty cool," Banks says. "We weren't seeking a 'perfection' that would filter out the character of the place. We embraced the *wabi-sabi* of imperfection. That's the day I felt, 'Well, it's working—Mayacamas is driving the story, not Charles Banks, not Andy Erickson. That's the authenticity. That's the voice of this brand.' "

FINAL THOUGHT

"What I like to drink most is wine that belongs to others." —DIOGENES

TRENDING

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PEOPLE

DOLCE & GABBANA

To expand their brand in the $8.7 billion Middle East luxury fashion market, the Italian designers launched a collection of *hijabs* and *abayas* in January.

COMPANY

FARADAY FUTURE

The automotive startup—backed by Chinese billionaire Jia Yueting—debuted a dazzling electric concept supercar at CES 2016. But Tesla needn't check the rearview just yet; a Faraday vehicle won't be built for years.

PLACE

HIGHCLERE CASTLE

Downton Abbey may be coming to an end, but the British mansion that has been its setting (and true star of the series) will remain open to the public this summer. And it's available for weddings.

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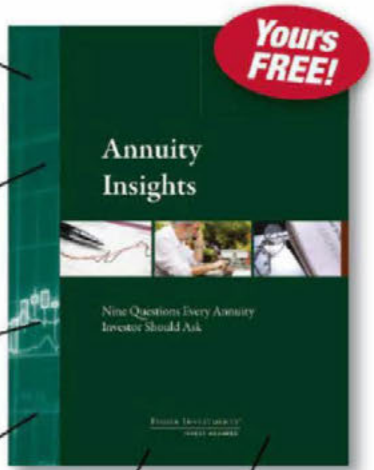

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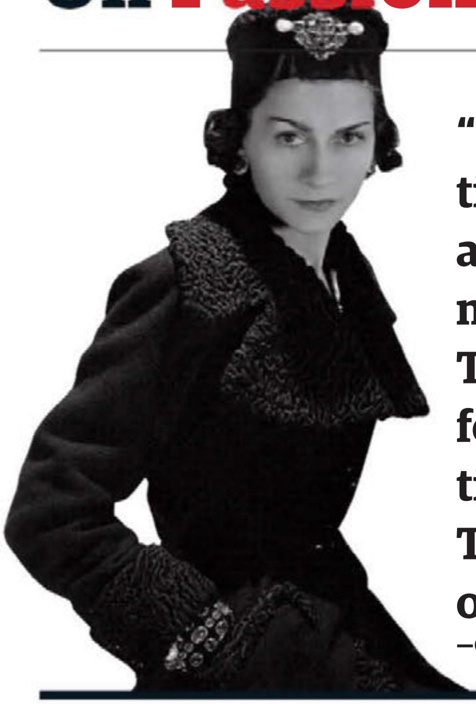
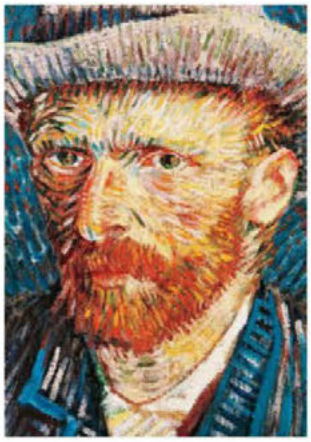


"There is no time for cut-and-dried monotony. There is time for work. And time for love. That leaves no other time."

—COCO CHANEL



"A great fire burns within me, but no one stops to warm themselves at it, and passersby see only a wisp of smoke."

—VINCENT VAN GOGH

"Only with absolute fearlessness can we slay the dragons of mediocrity that invade our gardens."

—GEORGE LOIS

"Let all of life be an unfettered howl."

—VLADIMIR NABOKOV

"Hard work is a prison sentence only if it does not have meaning."

—MALCOLM GLADWELL

"If you're passionate about something, it freaks people out. You're considered bizarre or eccentric. To me, it just means you know who you are."

—TIM BURTON

"PERSISTENCE AND DETERMINATION ALONE ARE OMNIPOTENT. THE SLOGAN 'PRESS ON!' HAS SOLVED AND ALWAYS WILL SOLVE THE PROBLEMS OF THE HUMAN RACE."

—CALVIN COOLIDGE

"WHATEVER YOU DO, WORK AT IT WITH ALL YOUR HEART, AS WORKING FOR THE LORD, NOT FOR HUMAN MASTERS."

—COLOSSIANS 3:23

"THERE IS SCARCELY ANY PASSION WITHOUT STRUGGLE."

—ALBERT CAMUS

"PEOPLE OF ACCOMPLISHMENT RARELY SAT BACK AND LET THINGS HAPPEN TO THEM. THEY WENT OUT AND HAPPENED TO THINGS."

—ELINOR SMITH

FINAL THOUGHT

"White-heat enthusiasm melts many a cold prospect."

—B.C. FORBES

SOURCES: THE TIMES BOOK OF QUOTATIONS; OUTLIERS, BY MALCOLM GLADWELL; GOODREADS.COM; AVIATRIX, BY ELINOR SMITH; THE MYTH OF SISYPHUS, BY ALBERT CAMUS.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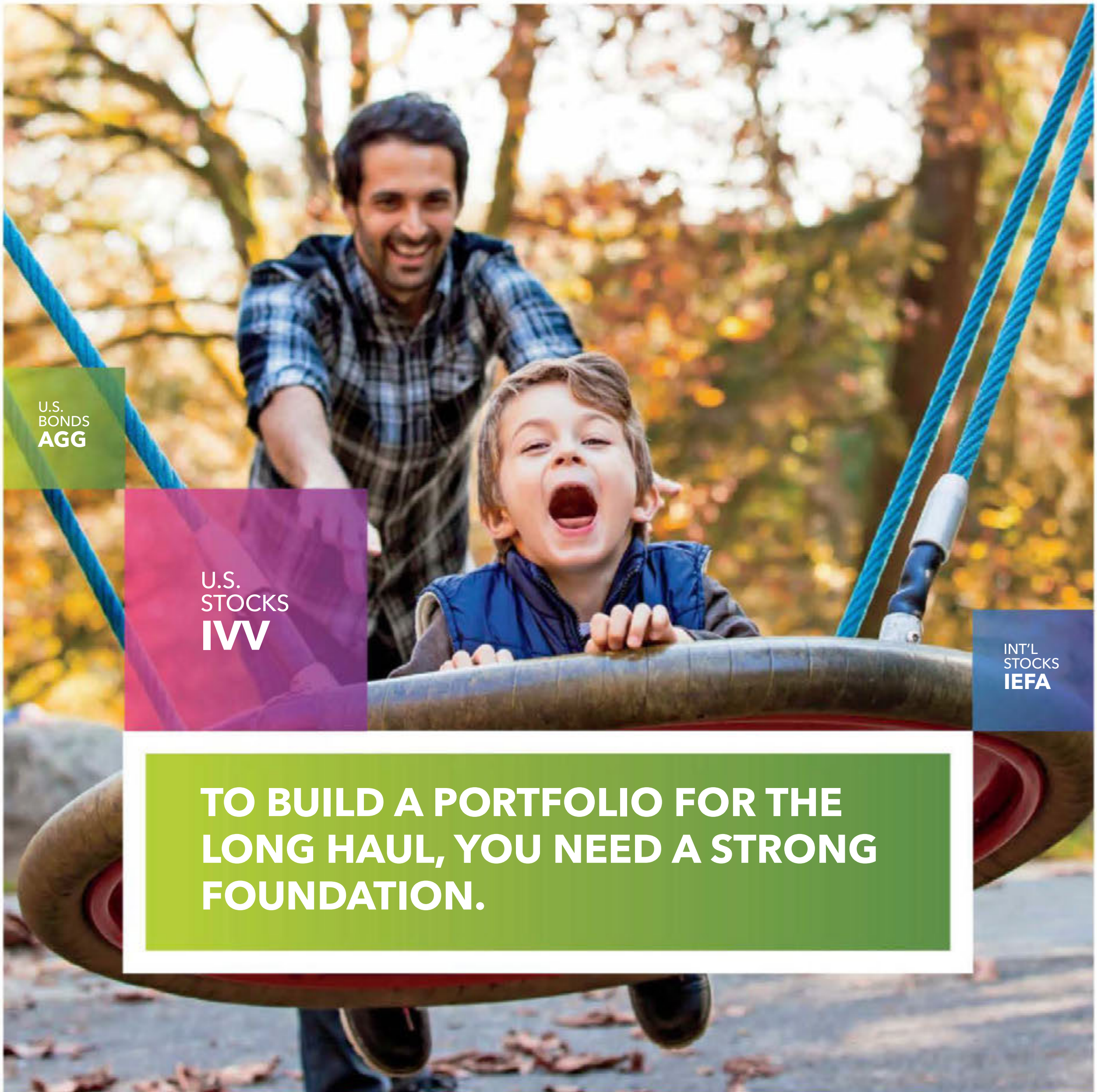
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